

Cheltenham Borough Council

Cabinet Meeting – 20th December 2022

Housing Revenue Account - Revised Forecast 2022/23 and Interim Budget Proposals 2023/24 for Consultation

Accountable member:

Cllr Peter Jeffries – Cabinet Member Finance and Assets

Accountable officer:

Paul Jones – Executive Director Finance, Assets and Regeneration (Section 151 Officer)

Accountable scrutiny committee:

Budget Scrutiny Working Group

Ward(s) affected:

All

Key/Significant Decision:

No

Executive summary:

This report summarises the Housing Revenue Account (HRA) revised forecast for 2022/23 and the Cabinet's interim budget proposals for 2023/24 for consultation.

The country is faced with the most significant cost-of-living crisis in a generation. Inflation in the last twelve months has increased from 4.2% to 11.1%, the Bank of England base rate has increased over the same period from 0.1% to 3.5% with further increases expected in 2023 and energy costs have soared for both consumers and businesses.

Excess cost inflation, increased interest payable, energy costs and additional compliance expenditure have added £1.8m to the HRA cost base compared to the 2022/23 budget prior to other year on year changes of £0.7m resulting in an overall expenditure increase of £2.5m. Whilst rental income will be increasing next year it has been capped at 7% (£1.4m increase) resulting in the estimated net operating surplus in the HRA falling from over £1m to £70,800 in 2023/24.

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The long-term impact of this high inflation and capped rent is substantial on the 30 year outlook with capacity in the HRA reducing by an estimated £92m.

This reduced capacity in the HRA means that the scale and pace of investment in existing and new homes needs to be carefully managed to ensure that vital services to customers and communities are protected. In order to deliver growth and maintain long term financial viability additional sources of revenue need to be secured including building or acquiring new homes for rent, additional revenue and capital grant funding and through CBH exploring new opportunities for commercial income.

Careful management of resources and plans for growth will allow the Council to continue additional, essential support for tenants and communities during the cost-of-living crisis. Alongside CBH and other partners activities will continue as part of the #WarmCheltenham initiative, identifying opportunities and supporting customers into training and employment, working to secure additional income for residents through CBH's Benefit and Money Advice Teams, expanding CBH's Help2 initiative supporting those households most in need and sign posting customers to further support and advice during this challenging time.

Whilst the scale and pace of investment needs to be managed appropriately the 2023/34 budget proposals in this report demonstrate the Council's commitment to our ambitious plans for delivering new homes, improving the quality of existing homes and protecting services for our customers and communities for the benefit of Cheltenham.

The Council and CBH have already been successful in bids to the Government's Social Housing Decarbonisation Fund and a further bid for up to £2m has been submitted to support £5m of retrofit works on 200 existing homes over three years as part of making Cheltenham net zero carbon. This will support tenants to save on their energy consumption, benefit from improved comfort levels in their home and help to improve their overall health and wellbeing.

Budget projections for the next 3 years include £63m for additional affordable homes as part of the Council's £180m housing investment programme in partnership with CBH. The pipeline aims to deliver 450 additional homes over 5 years with a significant proportion of these being net zero carbon.

The 2023/24 capital programme includes proposals to invest over £11m in existing homes and then to continue at this level for the following 2 years. This demonstrates a significant commitment to improving existing homes for customers to ensure they remain safe and secure places to live.

The interim budget proposals for 2023/24, including the focus on supporting customers through the cost-of-living crisis, investing in their homes and delivering more net zero homes, will help improve outcomes for all customers and communities, reduce inequality and support the economic recovery of Cheltenham together through this challenging period.

Recommendations:

1. Approve the interim HRA budget proposals for 2023/24 (shown at Appendix 2) for consultation including a proposed rent increase of 7% and changes to other rents and charges as detailed within the report
2. Approve the proposed HRA capital programme for 2023/24 for consultation as shown at Appendix 3 and Appendix 4
3. Note the revised HRA forecast for 2022/23
4. Delegate authority to the Executive Director Finance, Assets and Regeneration, in consultation with the Cabinet Member for Finance and Assets, to determine and approve any

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additional material that may be needed to support the presentation of the interim budget proposals for consultation

5. Seek consultation responses by 31 January 2023
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1. Implications

1.1. Financial implications

As detailed in the report and appendices.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 officer)

1.2. Legal implications

Under the Constitution Cabinet has responsibility for the preparation and consultation on the Council's budget. The final budget will be subject to consideration and approval by Full Council in February.

There are no specific legal implications arising from the report. Where legal matters arise from the recommendations contained within the report, officers will seek advice from One Legal.

Signed off by: One Legal, legalservices@onelegal.org.uk

1.3. HR implications

There are no direct HR implications arising from the report.

Signed off by: Julie McCarthy, Julie.mccarthy@publicagroup.uk

1.4. Environmental and climate change implications

The budget includes further investment in the retrofit of existing homes through a fabric first approach, to make them as energy efficient as possible for the benefit of customers, investing in new carbon net zero homes, improving the energy efficiency of its existing office buildings and making operational changes to support the aim of making Cheltenham net zero carbon by 2030.

A reduction in energy consumption leads to a reduction in overall greenhouse gas emissions, and therefore aligns with our Climate Emergency Action Plan. The investment in the capital programme will expedite our progress towards becoming a net zero Council.

Signed off by: Laura Tapping, Climate Emergency Programme Officer, 01242 264263

1.5. Property/asset implications

The budget includes investment in both existing homes and delivery of new affordable homes for the HRA.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 officer)

1.6. Corporate policy framework implications

The actions outlined in this budget proposal will help ensure that the council can continue to deliver its corporate objectives as set out in the 2019-2023 Corporate Plan. It also means we will be well placed to deliver the priorities in the new Corporate Plan which will be presented to Council for approval in February 2023.

Signed off by: Richard Gibson, Head of Communities, Wellbeing and Partnerships, 01242 264280

2. Promoting equality and reducing discrimination

An equality impact assessment will be presented with the final budget proposals following the consultation period ending on 31 January 2023.

3. Performance management – monitoring and review

The budget for the HRA is monitored by the CBH Board, the CBC Finance team and Cabinet throughout the year in partnership with CBH and reported to Cabinet and the Budget Scrutiny Working Group during the year.

4. Background

4.1. The Council's Constitution requires the Cabinet to prepare interim budget proposals for consultation before it makes recommendations to full Council in February 2023. The Cabinet is then required to draw up its firm budget proposals having regard to the responses it has received during the consultation period, and its report to Council in February 2023 should reflect the Cabinet's response to such comments.

4.2. Current Operating Environment

4.2.1. The country is faced with the most significant cost-of-living crisis in a generation. Inflation (CPI, Consumer Price Index) in the last twelve months has increased from 4.2% in October 2021 to 11.1% in October 2022. The Bank of England base rate has also increased as the Bank attempts to bring inflation back to its target of 2% by 2024. The base rate has increased over the last twelve months from 0.1% to 3.5% with further increases expected in 2023.

4.2.2. Energy costs have increased significantly for both businesses and consumers particularly due to the conflict in Ukraine. Household consumer energy costs have been capped under the Government energy price guarantee scheme until April 2023 when the cap will increase from £2,500 to £3,000 for a 'typical' household. Businesses and communal schemes have also received some support from the Government however costs have still soared with gas and electricity prices more than tripled.

4.2.3. The ending of COVID restrictions, Brexit and recent inflation pressures have led to significant cost increases of over 20% as well as shortages in supply of certain operating materials, equipment and contractor resource.

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A reduction in the UK workforce due to early retirements, long term illness and lower migration alongside the cost-of-living crisis has made recruitment and retention of staff more challenging as well as increased pressure on wage costs.

- 4.2.4. All of these factors, including the UK economy entering a recession, have been taken into consideration when setting the interim HRA budget 2023/24 and apply significant financial pressures on the Council and its Housing Revenue Account (HRA).

4.3. Government Policy

- 4.3.1. As part of the Autumn Budget Statement in November the Government confirmed that the April 2023 rent increase for social housing would be capped at a maximum of 7% for existing tenants rather than the 11.1% increase that would be permitted under current rent policy (September 2022 CPI +1%). This followed a consultation exercise to understand the impact of a below inflation rent rise on tenants, taxpayers and the ability of housing providers to continue to provide new social homes and continue to invest in existing homes. The impact of this cap is detailed further below.
- 4.3.2. Benefits such as universal credit will be uplifted at the same rate as inflation, measured by CPI in September at 10.1%. The benefit cap will also be increased in line with inflation, rising to £22,030 for families outside Greater London. The National Living Wage will rise by 9.7% to £10.42 an hour for individuals aged 23 and over.
- 4.3.3. In 2023-24 an additional Cost of Living Payment of £900 will be provided to households on means-tested benefits, £300 to pensioner households, and £150 to individuals on disability benefits.
- 4.3.4. The Government has stated a new long-term commitment to drive improvements in energy efficiency to bring down bills for households, businesses and the public sector with an ambition to reduce the UK's final energy consumption from buildings and industry by 15% by 2030 against 2021 levels. New government funding worth £6 billion will be made available from 2025 to 2028, in addition to the £6.6 billion provided in this Parliament.
- 4.3.5. In addition to the Council investing in the retrofit of existing homes through a fabric first approach, to make them as energy efficient as possible for the benefit of customers, it will invest in new carbon net zero homes, improve the energy efficiency of its existing office buildings and making operational changes to support the aim of making Cheltenham net zero carbon by 2030.
- 4.3.6. The Government have confirmed that Local Housing Allowance levels will be frozen for 2023/24 which could impact levels of affordable rent on current and future development schemes.

4.4. Social Housing White Paper

- 4.4.1. The Social Housing White Paper aims to raise standards, increase transparency and accountability, improve the complaints and redress process, and engage and empower residents over the medium term. Responding to building safety developments and ensuring our tenants have a strong resident voice will be at the forefront of our partnership work with CBH next year.
- 4.4.2. Additional procedures and resources are included in the budget to: appropriately respond to changes in the Fire Safety Act 2021 and Building Safety Act; extend our systems, data

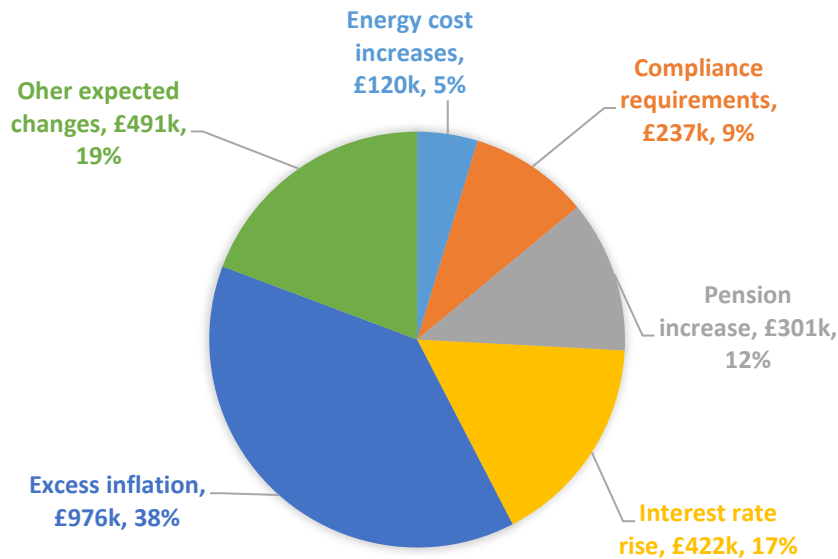
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and reporting to meet new legislation on installing smoke alarms and carbon monoxide alarms; perform quarterly fire door checks; deliver the required 5-year EICR (Electrical Installation Condition Report) safety checks on domestic properties; report on the new Tenant Satisfaction Measures; and deliver effective day-to-day processes meeting the Housing Ombudsman complaints code.

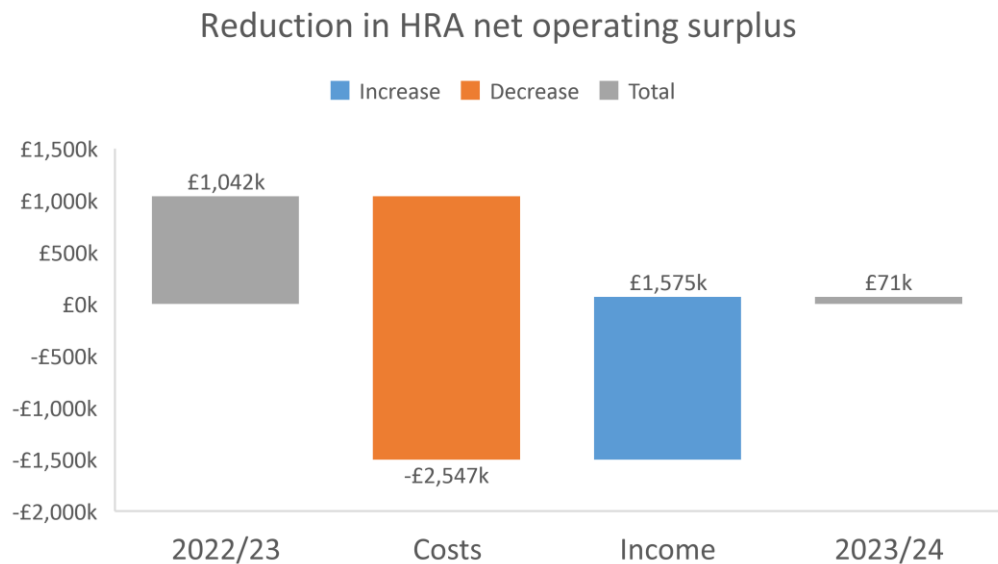
4.4.3. The aims set out in the paper and our drive for continuous service improvement is providing greater opportunity for tenants to shape our activities as we provide greater transparency and reporting and as we listen and act upon their feedback.

4.5. Impact on the HRA

4.5.1. The interim HRA budget for 2023/24 shows cost increases of £2.5m (12%) compared to the 2022/23 budget with the largest element being excess cost inflation of £976,000 due to the volatile operating environment. Interest costs have risen by £422,000 due to the increase in the base rates and energy cost increases account for £120,000 of the difference. An analysis of the impact on costs is given below.



4.5.2. The 7% increase in dwelling rents accounts for the vast majority of the increase in income despite the Government rent cap reducing potential rental income by £750,000 in 2023/24 compared to what would have been generated by a formula increase of CPI + 1% (11.1%). As can be seen below this increase in income is far outweighed by the increase in costs reducing the net operating surplus by £972,000 to £70,800 compared to the 2022/23 budget.



4.5.3. Over the 30-year HRA plan period, these changes are projected to reduce the capacity of the HRA by approximately £92m (of which £36m relates to inflation and £28m to the rent cap) meaning reduced ability to invest in new homes, existing homes and services provision.

4.5.4. The reduced capacity in the HRA means that the scale and pace of new investment in existing and new homes needs to be carefully managed to ensure that vital services to customers and communities are protected. In order to deliver growth and maintain long term financial viability additional sources of revenue need to be secured including building or acquiring new homes for rent, additional revenue and capital grant funding and through CBH exploring new opportunities for commercial income. The ambitious plans to deliver this investment and protect services whilst supporting our customers and communities through the cost of living crisis are set out below.

5. Reasons for recommendations - Plans for Delivery

5.1. The proposed budget for 2023/24 demonstrates the Council’s commitment to Cheltenham residents and communities during this volatile and challenging period through its continued investment over the medium in improving existing homes, supplying new homes and investing to make Cheltenham net zero carbon whilst providing immediate support during the cost-of-living crisis.

5.2. Support during the Cost-of-Living Crisis

5.2.1. During the last six months, in partnership with CBH, we have shifted focus and resources to prevention and support for current tenants with more proactive contact in order to mitigate the risk of rising rent arrears and ensure tenants understand the range of support available to them. Alongside CBH and other local partners activities will continue as part of the #WarmCheltenham initiative.

5.2.2. Under this approach the CBH Benefit and Money Advice Team has already secured £705,000 of additional income for tenants against a forecast of £416,000 which is significantly ahead of the £443,000 secured during the same period last year.

5.2.3. The CBH Training and Employment Team continues to support tenants and other

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residents into work and additional training with overall caseloads increasing by 11% from last year.

5.2.4. CBH will be expanding their Help2 initiative to make sure we are well placed to support those households most in need. We continue to develop relations with a range of partners and other agencies who provide dedicated specialist advice and support, including for energy bills, so we are able to sign post customers where needed and identify any new funding streams that will help those in need.

5.2.5. Funding for these services has been protected within the 2023/24 budget recognising the challenging period ahead for our tenants and communities.

5.3. Making Cheltenham Net Zero Carbon by 2030

5.3.1. The Council, in partnership with CBH, are committed to improving homes to support the 2030 net carbon zero target, as well as reducing the burden of fuel poverty for residents. This investment in existing homes comes at a significant cost to the HRA. It is therefore important to continue to make best use of grant funding opportunities as and when these become available.

5.3.2. Under the Government's £3.8bn Decarbonisation fund, the Council has already been successful in securing grant funding under the Social Housing Decarbonisation Fund (SHDF) Demonstrator Project and Wave 1 bid rounds. A new bid under the SHDF Wave 2.1 grant funding has been submitted for up to £2m to include 'fabric first' works to around 200 HRA homes at a total budget cost in the region of £5m over three years with the HRA supporting the remaining cost of the works. This is a key element of ensuring all HRA homes meet at least a SAP C energy performance rating by 2030.

5.3.3. In addition to tenants saving on their energy consumption, they will also benefit from improved comfort levels in their home, which in turn will improve their overall health and wellbeing.

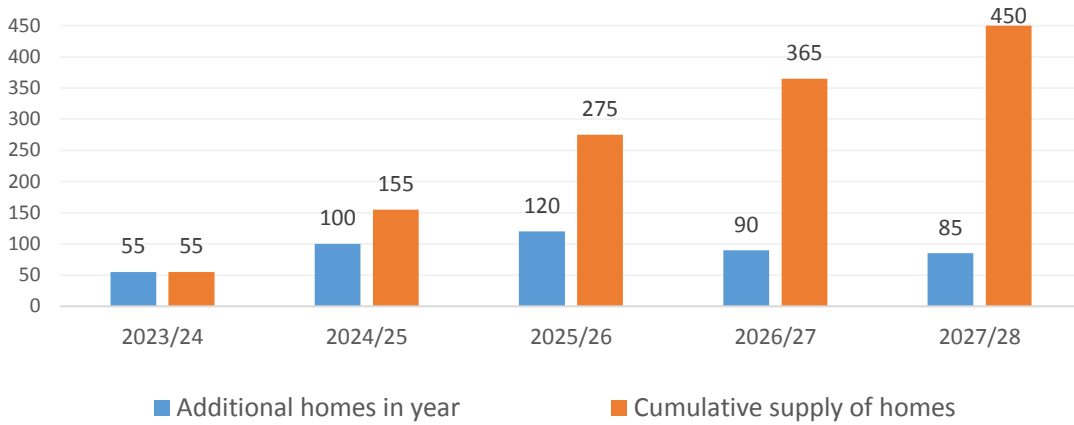
5.3.4. In addition, the Council is investing in new net zero carbon homes including 24 highly energy efficient new homes at 320 Swindon Road, final arrangements to acquire 9 net zero carbon homes under a Section 106 scheme with a local developer, and plans to develop up to 70 new net zero homes on existing HRA land available for development.

5.3.5. This investment is being managed by CBH and working in partnership with the Council will seek to influence the energy sustainability standard of other developer led schemes which will deliver future homes for the HRA and support other green initiatives for the benefit of Cheltenham residents.

5.4. Investing in New Affordable Homes

5.4.1. The Council continues to successfully deliver new affordable homes through its £180m housing investment programme in partnership with CBH. As part of this programme the Council has already spent approximately £43m (151 completed homes so far over 3.5 years) and is allocating £16m for 2023/24 and projecting further investment of £47m over the following 2 years.

5.4.2. The target is to deliver 55 additional homes in 2023/24 and increase the level of delivery in the following four years across a mix of tenures.



5.4.3. There continues to be a range of challenges in the housing construction sector, including inflationary pressures, interest rate rises, the threat of recession and resourcing issues. These factors have impacted how quickly new sites can be brought forward for development by developers and contractors. This and the financial pressures on the HRA have impacted the pace of delivery over the next five years. However, the ambition is to still deliver 450 additional homes in the next five years with up to 275 expected to be net zero carbon. Social rent tenure will also be prioritised to ensure homes remain affordable for new customers.

5.4.4. An element of this supply of new homes from 2024/25 onwards is expected to be the contribution from the Golden Valley Development spearheaded by the Council bringing education opportunities, career paths and a substantial number of new homes to residents of Cheltenham.

5.4.5. In addition, CBH continue to actively pursue new business opportunities with a range of developers, agents, and architects, to ensure we have a sufficient pipeline, both in the medium term (delivery within the next 5 years) and looking ahead to the longer term (strategic sites/larger more complex sites). Some of these sites have been discounted on the ground of complexity (listed building/existing building to be retained and remodelled) or financial viability. New business opportunities are monitored to ensure we are well placed to secure the affordable homes on the key sites that align with our collective ambitions to provide high quality affordable homes that support the net zero carbon agenda.

5.5. Improving Existing Homes

5.5.1. The Council is committed to investing in existing homes to ensure they are safe, secure and good quality places to live for our customers. This commitment is reflected in completing thousands of responsive repairs and planned works each year with 99% completed within target timescales and 84% of customers being satisfied with the quality of their home.

5.5.2. The HRA's asset management strategy includes investment programmes to help bridge the quality gap between existing and new homes. These programmes of work include changes to statutory compliance requirements, increases in energy performance and improvements in the quality of homes in ways that assist customers and contribute to their quality of life.

5.5.3. This programme of investment will continue in 2023/24 with £2.0m allocated to 'fabric first' and other energy sustainability measures, £1.9m for external works including roofs, chimneys and rainwater goods, £0.8m for new kitchens, bathrooms, showers and rewiring,

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and £0.5m for neighbourhood works. In addition, £1.2m has been allocated for improvements to non-traditional build properties.

5.5.4. Investment in changing compliance requirements is a high priority for the 2023/24 budget in order to deliver changes to domestic property electrical tests, fire door checks, fire risk assessments and other fire safety and building safety regulations.

5.5.5. In total the budget for 2023/24 proposes an investment of £11.9m in existing homes and the projections are to continue to invest at this level for the following 2 years. This demonstrates a significant commitment to improving existing homes for customers to ensure they remain safe and secure places to live.

5.6. Investing in Communities

5.6.1. The Council will continue to deliver on shared community investment plans in partnership with CBH, focusing on social isolation, financial hardship, young people via No Child Left Behind, mental health and wellbeing support and collaborate in support of a sustainable community facility for St Peters & the Moors

5.6.2. Through CBH and other partners the Council delivers community projects, activities and funding including:

- a large number of successful community events during school holidays and the holiday activity and food programme
- a hub-based service focusing on wellbeing to support older people to access services and social opportunities close to home, supporting independent living and reducing social isolation
- a Housing First pathway to permanently house rough sleepers in tenancies with support
- projects to combat Anti Social Behaviour
- outcomes for families and young people impacted by Adverse Childhood Experiences
- employment and training outcomes
- a programme of detached youth work
- support for Cheltenham's Heads up campaign to raise awareness of mental health and positive lifestyle choices
- support for Cheltenham' Inspiring Families programme, working with partners to provide community based family support

5.6.3. The budget proposals for 2023/24 ensure the Council and CBH will continue to be able to support tenants and communities to thrive and help improve outcomes for young people and reduce inequality.

5.7. Customer Service and Accessibility of Services

5.7.1. Despite the challenging operating environment, with the support of the Council, CBH continues to prioritise the provision of high quality, core landlord services to tenants, delivering first or second quartile performance on a range of outcomes and satisfaction measures when compared to other housing providers in the sector. These core services include repairs, anti-social behaviour management (ASB), tenancy management, rent arrears management, lettings and resident involvement. Appropriate investment in these

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core landlord services from the HRA ensures high performance and customer satisfaction levels.

5.7.2. Repairs and maintenance performance is a key driver of satisfaction and important to sustain quality housing stock in an environment of increasing demand, current cost pressures and shortages in materials and skilled labour in the sector. The budget proposals also include four apprenticeship positions within CBH's repairs team to grow internal, skilled resource.

5.7.3. As part of the proposed budget CBH will continue to focus on listening and acting on customer feedback in order to improve satisfaction levels, expand digital services whilst recognising that high quality phone contact for many customers is still essential.

5.8. Delivering through strong partnership working

5.8.1. Following the success of the programme to date, work will continue under our shared commitment to deliver continuous improvement and to identify and capitalise on future opportunities that benefit residents and customers.

5.8.2. CBC and CBH have implemented a shared communications and marketing service with the subsequent team structure supporting the requirements of the 'one point of contact' asked for by key stakeholders. This team has a pool of skilled professionals who are specialists in their areas with the resilience to deliver a proactive service to meet CBC and CBH's business needs and aspirations.

5.8.3. As part of the Council and CBH's strong working partnership CBH committed to deliver £487,000 of annual savings over 3 years to end of 2023/24. CBH have already delivered £309,000 of these savings and the final £178,000 of savings have been included as part the ALMO management fee in the 2023/24 budget proposals. This final tranche of savings has been achieved through staff changes and operating efficiencies.

5.9. Value for Money

5.9.1. Demonstrating excellent customer services at the right cost is crucial and ensures that the Council and CBH are delivering value for money (VFM); it is about understanding the need to spend and managing that effectively to maintain strong core services and continue to achieve positive change and outcomes for our customers. This ensures that the rent that is paid into the Housing Revenue Account (HRA) delivers high quality services whilst maintaining and improving existing homes and building more affordable homes.

5.9.2. Performance, satisfaction and costs are benchmarked against other housing providers in the sector with a target of first and second quartile performance and satisfaction whilst targeting costs at a median sector level.

5.9.3. CBH continues to look for ways of making services cost efficient and opportunities for additional income to increase the capacity of the HRA for investment and maintain long term financial viability.

5.10. 2022/23 HRA Revised Forecast (Appendix 2)

5.10.1. The forecast revenue position after the first 8 months of 2022/23 shows a negative variance of £636,200 from budget, reducing the operating surplus for the year from £1,042,400 to £406,200. Significant variations (greater than £50,000) have been identified in

budget monitoring reports and are shown below.

Budget Heading	Additional Cost (-) / Income (+) £
General & Special Management – impact of higher than budgeted pay award	(122,900)
Repairs and Maintenance - increased expenditure due to continuing high demand and inflationary pressures on materials, labour and sub-contract works, as well as supply issues with certain material products	(200,500)
Provision for Bad Debts – collection performance remains high reducing debt write off	82,000
Depreciation of Dwellings – reflects higher stock numbers and inflation on components and property valuations	(79,600)
Interest Payable – reduction in borrowing arising from delays to capital programme	113,100
Reduction in Non-Dwelling Rents – commercial properties appropriated to General Fund April 2022	(291,100)
Other net variations (lower than £50,000)	(137,200)
Decrease in Operating Surplus (compared to Original Budget)	(636,200)

5.10.2. The HRA capital programme shows a marginal reduction in forecast spend on existing homes, down by £162,000 to £11.8m on the revised budget. The new build programme is anticipated to reduce by £11m to £6m. The economic outlook continues to be uncertain and identified opportunities have been delayed due to planning issues and material and labour shortages experienced by developers. Market purchases are also lower than planned due to current market conditions. The pipeline remains strong but timings of the programme will be dependent on market conditions

5.11. 2023/24 HRA Budget Proposals (Appendix 2)

5.11.1. The interim budget proposals for the HRA Operating Account are set out in Appendix 2. The budget is set in comparison with the forecast for 2022/23 and budget 2022/23 figures.

5.11.2. This shows a decreased net operating surplus due to inflationary pressures, additional compliance costs, higher interest payable and the Government rent cap. The net operating surplus is projected to increase in future years as new homes are added to the HRA housing stock.

5.11.3. All rents are proposed to increase by 7% in April 2023 following the announcement of the CPI for September 2022 at 10.1% and subsequent cap introduced by the Government.

5.11.4. The rent estimates assume a 1% void rate and 20 RTB sales annually and also reflect additional income from newly built homes and acquired homes.

5.11.5. There are significant inflationary pressures on service costs which are recharged to

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tenants and leaseholders. Current estimates of service charge increases for 2023/24 are:

- Additional 12% for HRA grounds maintenance work undertaken by Ubico
- Uplift of 12% on cleaning charges for the communal areas in blocks of flats
- Communal heating scheme costs and communal lighting charges are still to be finalised, awaiting confirmation of future energy contract prices

5.11.6. Garage rents are proposed to be increased by 7% from April 2023 in line with the proposed increase in housing rents.

5.11.7. Expenditure budgets reflect:

- An estimated pay award in 2023/24 of 5%
- An increase in the ALMO management fee of 7% which reflects provision for a pay award, increase in pension contributions, additional resource to meet new regulatory compliance requirements and inflation on other non-staff costs, offset by savings under the CBC/CBH Stronger Working Partnership Programme
- Inflationary increase of 10% on repairs and maintenance costs which reflects provision for a pay award, increase in pension contributions and higher inflationary increases on building and maintenance costs reflecting current price pressures in the construction sector
- Shared service cost increases at 5% per annum
- Interest rates on new borrowing at 3.65% per annum
- Assumption that Homes England funding continues at existing levels and shared ownership costs do not change substantially

5.11.8. Significant changes to the HRA operating account (greater than £50,000) in 2023/24 as compared to the revised forecast for 2022/23 are itemised in the table below.

Budget Heading	Additional Cost (-) / Income (+) £
General and Special Management – increase due to pay award and inflation on non-staff costs in particular energy costs	(457,300)
ALMO Management Fee – increase arising primarily from anticipated pay award, inflation and pension contributions partly offset by savings identified through the CBC/CBH Stronger Working Partnership	(390,500)
Repairs & Maintenance – continuing high demand and inflationary pressures	(505,600)
Interest Payable- significant increase in interest rates and additional borrowing to finance capital programme	(534,900)
Depreciation of Dwellings – reflects increase in stock numbers and inflation on component costs	(275,200)
Rent Income – rent increase (7%) and supply of new homes	1,649,000

Service Charge income – reflects impact of inflation on service costs	182,300
Other net variations (lower than £50,000)	(3,200)
Decrease in Operating Surplus (compared to 2022/23 forecast)	(335,400)

5.12. HRA Capital Programme 2023/24 (appendices 3&4)

5.12.1. The capital programme for 2023/24 continues to show significant investment in both existing homes and the acquisition and development of additional homes. Total spend is forecast to increase to £27.9m.

5.12.2. The proposed funding of this ambitious programme is set out at Appendix 3 and includes a combination of borrowing, Homes England grant, shared ownership sales, capital receipts and leaseholder contributions. The balance of funding sources may vary, dependent on availability and prevailing interest rates.

6. Funding and Financial Viability

6.1. As noted above the impact of inflation, the rent cap, interest rates and compliance changes have had a substantial impact on the capacity of the HRA over the medium to long term. It is still important to invest in existing and new homes and the customer focused services which are essential for the support of our communities in this most challenging of times.

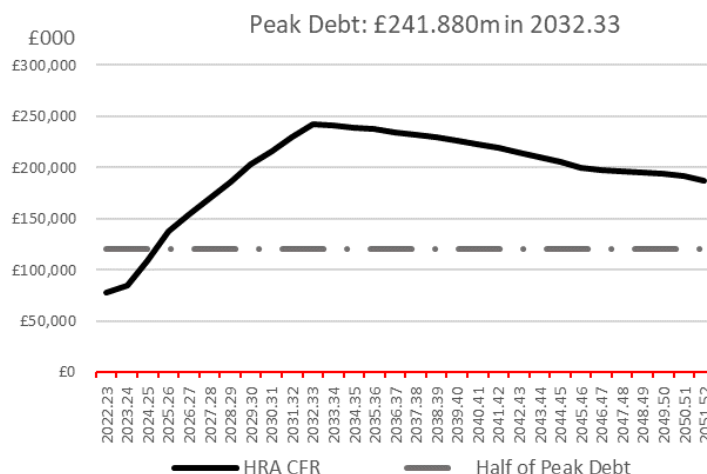
6.2. The significant level of capital investment proposed within this report will be financed by a combination of borrowing, grant funding, shared ownership sales and capital receipts. In order to deliver this investment the level of debt within the HRA will be higher at its peak and need to be serviced and repaid over a longer period of time. This brings its own risks which need to be carefully managed over the short to medium term to ensure viability over the long term.

6.3. Long term assumptions, beyond the next three years, include:

- CPI at the Government target rate of 2%
- Rent increases at CPI + 1% per annum to March 2025 then reducing to CPI + 0.5% and then CPI thereafter (next review of Government rent policy due April 2025)
- Borrowing rates at 3% per annum over the long term
- A refreshed assessment of the 30-year need to spend on repairs and component replacement

6.4. The following parameters are used to ensure financial viability in the longer term:

- the ability to deliver the capital programme on existing homes
- the HRA is able to repay debt – as shown in the graph opposite with debt in year 30 less than half of peak debt
- HRA reserves do not fall below a contingency level
- there is sufficient and growing interest cover



6.5. The current projections show that the second parameter relating to the repayment of debt will not be met during the plan period due to the financial pressures on the HRA. It is proposed that this is accepted in order to allow for the continued investment in essential services and new homes as set out in this draft budget. Careful monitoring will be necessary to ensure that the scale and pace of delivery does not risk long term viability.

7. Consultation and feedback

7.1. The Council is proposing to consult on these budget proposals during the period to 31 January 2023. The results from this consultation will be fed back to the Cabinet and considered in the formulation of the final budget proposals.

7.2. As part of the interim consultation process the Cabinet's proposals will be included on the Council's and CBH's website. All interested parties will be encouraged to respond, and consultation meetings will be held with tenant representatives.

7.3. In preparing the consultation document it may be helpful to provide supplementary information, for instance relating to the main changes in the budget. It is therefore recommended that the Executive Director, Finance and Assets and Cabinet Member for Finance be given delegated authority to approve any supplementary information for consultation.

8. Key risks

8.1. There remains a number of areas of uncertainty and risk within the longer-term projections for the HRA including the level and nature of Government funding for the net zero carbon programme for existing homes, timings for delivery of new homes, inflationary and supply pressures, and Government rent and other policy positions. These will continue to be monitored and modelled as further information becomes available.

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Appendices:

- i. Risk Assessment
- ii. HRA Operating Account
- iii. Major Repairs Reserve and HRA Capital Programme (summary)
- iv. HRA Capital Programme (detail)

Background information:

1. CBC Corporate Plan
2. HRA 5 year Business Plan
3. HRA 30-year Financial Model

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
1.01	If the external policy environment remains volatile this may impact the economic operating environment and future funding of the HRA	Paul Jones	4	3	12	Reduce the risk	Policy changes are monitored closely and the impacts understood and mitigated where there is a significant impact on the HRA (such as the recent rent cap). A 30 year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term	CBH through management agreement	Mar 2024
1.02	If material and labour price increases and resource constraints continue in the medium term this may cause further financial restraints	Paul Jones	4	4	16	Reduce the risk	The current volatility in the construction sector will continue to be monitored carefully. Long term supply agreements are in place or will be put in place for new programmes through competitive procurement to reduce the risk of labour and material shortages. Sufficient internal	CBH through management agreement	Mar 2024

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							resource will be maintained to reduce the impact of subcontractor price volatility. A 30 year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term. The pace and scale of future investment will be managed carefully to protect existing services and support for tenants.		
1.03	If welfare reforms, including changes to UC rates, have a greater impact on tenants than anticipated and planned for, it may increase the level of arrears for the HRA and impact on vulnerable families	Paul Jones	3	2	6	Reduce the risk	The HRA budget includes specific resources to control rent arrears and support tenants through transition to Universal Credit. This has been successful in mitigating the impact so far.	CBH through management agreement	Mar 2024
1.04	If void rent loss is higher than estimated it will	Paul Jones	3	2	6	Reduce the risk	Demand for social housing remains high	CBH through management	Mar 2024

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	impact on assumed rent income in the HRA						and is anticipated to increase in the medium term, with a significant waiting list and short re-let times. Quality of homes needs to be maintained and changes in void levels monitored.	agreement	
1.05	If there are insufficient resources to deliver planned maintenance to existing homes or meet additional compliance requirements, then homes may become non decent or there may be an increase in void loss	Paul Jones	4	3	12	Reduce the risk	Robust stock condition data and compliance data is maintained informing future capital spend and compliance requirements. Procurement best practice is followed with continuing contract management. A 30 year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term	CBH through management agreement	Mar 2024
1.06	If the demand for reactive repairs increases there may be insufficient budget	Paul Jones	3	2	6	Reduce the risk	The planned maintenance programme for existing	CBH through management agreement	Mar 2024

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	to meet demand						homes is delivered each year. A 30 year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term. Major peril to the stock is fire which is covered by appropriate insurance.		
1.07	If the Net Zero Carbon programme is not carefully planned and delivered and not sufficiently funded by Government there may be insufficient resources to deliver existing maintenance programmes and services	Paul Jones	4	3	12	Reduce the risk	Resources have been set aside to conduct retrofit activities over the next 3 years. This will be followed by further funding bids and retrofit programmes. The target for new build controlled by the Council is to deliver net zero carbon homes. Progress in the sector and funding proposals by Government will be carefully monitored. A 30 year financial plan is maintained, updated	CBC/CBH through partnership working	Mar 2024

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							and stress tested regularly to ensure the HRA is financially viable over the long term		
1.08	If there are insufficient new supply opportunities (land/acquisitions) or resources (including funding such as grants and borrowing) the ambitious targets for net new supply will not be achieved	Paul Jones	3	2	6	Reduce the risk	Internal resources have been expanded to identify and deliver on new supply opportunities. Close partnership working between and CBC and CBH and also with Homes England is maintained. A 30 year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term	CBC/CBH via Strategic Housing Delivery Group, Council Member Working Group	Mar 2024
1.09	If the capital receipts held from RTB sales under the retention agreement with DLUHC are not used within 5 years of receipt they are repayable with interest to the Government	Paul Jones	3	1	3	Reduce the risk	The acquisition programme is continuing at a level which is adequate to use receipts before they would be repayable. This position is regularly	CBC/CBH through partnership working	Mar 2024

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							monitored.		

HRA OPERATING ACCOUNT

	2022/23		2023/24	2024/25	2025/26
	Original £	Forecast £	Estimate £	Projections £	
EXPENDITURE					
General & Special Management	2,623,500	2,746,400	3,203,700	3,135,900	3,217,600
ALMO Management Fee	5,591,000	5,633,000	6,023,500	6,144,000	6,266,900
Rents, Rates, Taxes and Other Charges	89,600	120,000	130,300	130,300	130,300
Repairs & Maintenance	4,808,800	5,009,300	5,514,900	5,879,700	6,043,300
Provision for Bad Debts	307,000	225,000	243,000	261,000	276,000
Interest Payable	2,120,000	2,006,900	2,541,800	2,779,300	3,119,800
Depreciation of Dwellings	5,258,100	5,337,700	5,612,900	5,937,500	6,288,300
Depreciation of Other Assets	278,200	309,100	342,300	365,700	400,100
Debt Management Expenses	93,600	94,700	104,100	106,200	108,300
TOTAL	21,169,800	21,482,100	23,716,500	24,739,600	25,850,600
INCOME					
Dwelling Rents	20,471,100	20,431,200	22,080,200	23,733,000	25,128,600
Non Dwelling Rents	508,000	216,900	230,700	245,300	252,500
Charges for Services and Facilities	947,300	954,500	1,136,800	1,194,800	1,223,800
Feed in Tariff from PV Installations	255,000	255,000	287,100	305,800	315,000
TOTAL	22,181,400	21,857,600	23,734,800	25,478,900	26,919,900
NET INCOME FROM SERVICES	1,011,600	375,500	18,300	739,300	1,069,300
Interest Receivable	30,800	30,700	52,500	41,300	30,000
NET OPERATING SURPLUS	1,042,400	406,200	70,800	780,600	1,099,300
Appropriations					
Revenue Contributions to Capital	-1,042,400	-1,229,200	-70,800	-780,600	-1,099,300
Net Increase/(Decrease) in reserves	-	-823,000	-	-	-
Revenue Reserve brought forward	1,500,000	2,323,000	1,500,000	1,500,000	1,500,000
Revenue Reserve carried forward	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000

Average Social Rent:-					
Increase 1st April			7.00%	6.50%	2.50%
48 wk	93.05	99.57	106.04	108.69	
52 wk	85.90	91.91	97.88	100.33	
Average stock	4,378	4,360	4,375	4,415	

Average Affordable Rent:-					
Increase 1st April			7.00%	6.50%	2.50%
48 wk	148.29	158.67	168.99	173.21	
52 wk	136.89	146.47	155.99	159.89	
Average stock	146	181	228	276	

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MAJOR REPAIRS RESERVE

	2022/23		2023/24	2024/25	2025/26
	Original	Forecast	Estimate	Projections	
	£	£	£	£	£
Balance brought forward	-	-	-	-	-
Depreciation of Dwellings	5,258,100	5,337,700	5,612,900	5,937,500	6,288,300
Depreciation of Other Assets	278,200	309,100	342,300	365,700	400,100
	<u>5,536,300</u>	<u>5,646,800</u>	<u>5,955,200</u>	<u>6,303,200</u>	<u>6,688,400</u>
Utilised to fund Capital Programme	-5,536,300	-5,646,800	-5,955,200	-6,303,200	-6,688,400
Balance carried forward	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

HRA CAPITAL PROGRAMME

	2022/23		2023/24	2024/25	2025/26
	Original	Forecast	Estimate	Projections	
	£	£	£	£	£
<u>EXPENDITURE</u>					
EXISTING STOCK					
Property Improvements & Major Repairs	10,767,000	11,205,400	11,247,000	12,533,000	13,037,000
Adaptations for the Disabled	500,000	575,000	600,000	600,000	600,000
Environmental Works (Tenant Selection)	-	-	-	-	-
Other inc repurchase of S/O Dwellings	60,000	60,000	60,000	60,000	60,000
	<u>11,327,000</u>	<u>11,840,400</u>	<u>11,907,000</u>	<u>13,193,000</u>	<u>13,697,000</u>
NEW BUILD & ACQUISITIONS	17,000,000	6,000,000	16,000,000	24,000,000	23,045,000
TOTAL	<u>28,327,000</u>	<u>17,840,400</u>	<u>27,907,000</u>	<u>37,193,000</u>	<u>36,742,000</u>
<u>FINANCING</u>					
Capital Receipts	1,511,000	1,511,000	1,511,000	1,511,000	1,511,000
HRA Revenue Contribution	1,042,400	1,229,200	70,800	780,600	1,099,300
Leaseholder Recharges	300,000	300,000	300,000	300,000	300,000
Major Repairs Reserve	5,536,300	5,646,800	5,955,200	6,303,200	6,688,400
Grants & Shared Ownership Sales	2,187,900	825,000	7,927,500	8,067,500	4,265,000
Borrowing	17,749,400	8,328,400	12,142,500	20,230,700	22,878,300
TOTAL	<u>28,327,000</u>	<u>17,840,400</u>	<u>27,907,000</u>	<u>37,193,000</u>	<u>36,742,000</u>

PROPERTY IMPROVEMENT & MAJOR WORKS				
Description of works	2022/23	2023/24	2024/25	2025/26
EXTERNAL IMPROVEMENTS	1,806,000	1,932,000	1,967,000	1,750,000
INTERNAL IMPROVEMENTS	679,000	767,000	3,996,000	4,545,000
PATHS, FENCES & WALLS	427,000	376,000	473,000	402,000
NEIGHBOURHOOD WORKS	600,000	500,000	440,000	-
ENERGY EFFICIENCY & OTHER SUSTAINABILITY MEASURES	1,620,000	2,000,000	2,000,000	2,000,000
RENEWAL OF HEATING SYSTEMS	607,000	683,000	289,000	605,000
MAJOR REFURBISHMENTS TO VOID PROPERTIES	1,084,200	1,060,000	995,000	1,022,000
WINDOWS & DOORS	1,560,400	100,000	1,000	863,000
ASBESTOS	300,000	275,000	275,000	110,000
SHELTERED ACCOMMODATION	250,000	160,000	88,000	33,000
DOOR ENTRY SCHEMES	131,800	175,000	112,000	112,000
STRUCTURAL WORKS	55,000	33,000	33,000	33,000
COMMUNAL WORKS	74,000	185,000	185,000	185,000
FIRE PROTECTION	275,000	165,000	172,000	162,000
LIFTS	237,000	281,000	-	147,000
NON TRADITIONAL HOMES (CORNISH UNIT PROPERTIES)	20,000	1,166,000	-	-
GARAGE IMPROVEMENTS	25,000	28,000	28,000	28,000
WARDEN CALL UPGRADE	600,000	400,000	-	-
CONCRETE REPAIRS	-	-	489,000	32,000
WORKS TO BUILDING FABRIC	10,000	11,000	11,000	-
FEE FOR MANAGING PROGRAMME	844,000	950,000	979,000	1,008,000
CONTINGENCY	-	-	-	-
TOTAL BUDGET FOR EXISTING PROPERTIES	11,205,400	11,247,000	12,533,000	13,037,000

NEW BUILD & ACQUISITIONS				
	2022/23	2023/24	2024/25	2025/26
NEW BUILD (APPROVED)	1,656,700	2,281,000	1,825,000	-
MARKET PURCHASE	2,698,500	3,950,000	3,950,000	3,995,000
NEW SCHEMES	1,644,800	9,769,000	18,225,000	19,050,000
TOTAL ESTIMATE FOR NEW BUILD & ACQUISITIONS	6,000,000	16,000,000	24,000,000	23,045,000

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