COLCHESTER	**Appendix A** **Cabinet** **26th January 2022**	**Item**

Report of	**Assistant Director for Place and Client Services**	**Author**	**Darren Brown** **☎ 282891**
Title	**Housing Revenue Account Estimates 2022/23**		
Wards affected	**All**		

This report presents the Housing Revenue Account (HRA) estimates for 2022/23, the Medium Term Financial Forecast (MTFF) for 2022/23 to 2026/27, and the 30 Year HRA financial model

1. Executive Summary

1.1 This report sets out the Housing Revenue Account budget for 2022/23, including proposals for changes to tenants rents for the coming financial year, and the management fee payable to Colchester Borough Homes. It includes at Appendix C a forecast of the potential expenditure requirements and income projections for the HRA for the next 5 years, and the updated 30 year HRA financial model at Appendix E.

2. Recommended Decision

2.1 To approve the 2022/23 HRA revenue estimates as set out in Appendix A.

2.2 To approve dwelling rents as calculated in accordance with central Governments rent policy (set out in paragraph 5.7).

2.3 To approve the HRA revenue funded element of £7,855,100 included within the total management fee for Colchester Borough Homes (CBH) (set out in paragraph 5.14).

2.4 To note a revenue contribution of £3,979,300 to the Housing Investment Programme (HIP) is included in the budget (paragraph 5.29).

2.5 To note the HRA balances position in Appendix B.

2.6 To note the Medium Term Financial Forecast (MTFF) set out at Appendix C and the 30 Year HRA financial position set out at Appendix E.

3. Reasons for Decision

3.1 Financial Procedures require the Assistant Director for Place and Client Services to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

4. Supporting Information

Key Issues for 2022/23

4.1 There are a number of key issues relating to the HRA budget for 2022/23, with further details being included within the main body of the report. However, in summary they are as follows;

- This is the first HRA budget to be set in the context of the refreshed 30 year HRA Business Plan, which is considered separately on the agenda. The budget therefore reflects the strategic priorities identified within the HRA business plan.

- Cabinet have previously agreed further significant investment in the Councils housing stock during 2022/23, which is reflected in the 2022/23 Housing Investment Programme report elsewhere on the agenda. This includes the HIP Climate Emergency Response works. The revenue implications of this investment are therefore reflected in the 2022/23 HRA budget.

- A revised Asset Management Strategy is being finalised, and the outputs have been included in this report and the Housing Investment Programme report elsewhere on the agenda.

- This is the eleventh year of HRA Self-Financing, which radically altered the funding of Council Housing, and the investment in the housing stock and other projects is reflected in this report and the Housing Investment Programme report included elsewhere on the agenda.

Prudence

4.1.1 This report and the 2022/23 Housing Investment Programme included elsewhere on the agenda reflect significant capital spending plans over the next 5 years, reflecting the clear signal and expectation from Government that Councils will increase the supply of Council housing through new build etc, following the abolition of the HRA debt cap. For information, the Councils housing stock at 1st April 2021 totalled 5,905 dwellings, with a balance sheet value of £396.8million.

4.1.2 In April 2012, the Council took on circa £75million of debt, determined as affordable by the Government under the HRA Self-Financing settlement. In the years thereafter, any new investment and its affordability has been assessed as part of the update of the 30 year HRA Business Plan. As set out in this report, the current and further planned investment and associated borrowing cost continues to be affordable, as demonstrated by the interest cover ratio in paragraph 5.27.

Housing Rents

4.2 The Governments 4 year rent reduction period ended in 2019/20, and the Government announced that rents would revert to the previous formulaic increase for a period of 5 years. Therefore, rents will increase by Consumer Price Index (CPI) + 1% from 2020/21 to 2024/25, which means we are continuing to set **dwelling rents within Department for Levelling Up, Housing & Communities (DLUHC) guidelines and so the annual increases in rents paid by tenants are set by reference to national Government policy.** The Government expects local authorities to apply rent restructuring to all their HRA properties and is the assumption the Government made when establishing the amount of debt we would take on under HRA Reform. As a reminder, the aim is that social rents reflect the condition and location of properties, local earnings and property size. Each property continues to have a target rent calculated using the Government's formula, and this increases annually by the September CPI figure + 1.0%. Rents are able to be moved to target rent when the property becomes empty, and there are caps in place to protect tenants from very large increases.

4.2.1 There is no information to suggest what will happen to rents after 2024/25, but the prudent assumption within the MTFF and 30 year Business Plan is that rents will increase in line with the Consumer Price Index (CPI) only.

4.3 As part of the process for setting the 2022/23 HRA budget, it is necessary to revisit the 2021/22 position to forecast the predicted level of HRA balances along with identifying any risk areas or cost pressures which could have an impact in future years.

2021/22 Revised Housing Revenue Account

4.4 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2021/22. There have been some amendments to the original budget for 2021/22 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2021/22:-

Reconciliation between Original and Revised 2021/22 HRA Budget

	Budget 21/22	***Commentary***
	£'000	
Original Budget Deficit	**-**	Agreed 27th January 2021
2020/21 Budgets c/fwd	399	Agreed by Assistant Director of Corporate and Improvement
Revised Budget Deficit	**399**	

2021/22 Forecast Outturn Position

4.5 When considering the financial position of the HRA, in addition to the adjustments to the 2021/22 original budget shown in the above table, it is important to note the 2021/22 forecast outturn position. It is currently predicted that the HRA will be on budget at the year-end. The table below provides a breakdown of this net position. In addition, commentary is provided on the major variations;

	Outturn 21/22
	£'000
Employee costs	35
Net Rental & Tenants Service Charge Income	421
One-off/Technical Items	
Revenue Contribution to Capital (RCCO)	(456)
Forecast 2021/22 Outturn Variance	**-**

- An overspend of £35k is forecast due to agency staff being used to provide short-term resource in the Client team.

- It is forecast that we will receive less rental and tenants service charge income of £421k. This primarily reflects the net impact of rental & service charge income being lost from dwellings and garages than assumed within the budget, through a combination of voids and the level of Right to Buy sales, along with the timing of acquisition and additions to our housing stock.

- As a result of these forecast outturn variances, a reduced Revenue Contribution to Capital of £456k to fund the Housing Capital Programme in 2021/22 is forecast.

4.6 To provide a further explanation of the forecast outturn position, the funding of the Housing Investment Programme considered elsewhere on the agenda is derived from a number of sources. After firstly taking into account depreciation, grants and capital receipts etc, the remaining sources of funding are revenue resources from the HRA as detailed in this report, then finally borrowing in the form of new loans. Any opportunity to forego new borrowing so that interest costs can be minimised should be taken.

HRA Reform

4.7 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2022/23 budget therefore reflects the eleventh year of operating within this financial regime for the HRA, with commentary included on the medium and long-term outlook in this report.

4.8 Appendix E summarises the 30 year financial modelling for Colchester's HRA. This is set out using the standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. Further information is provided at paragraph 7, including some of the underlying principles and assumptions that are included. Given the long time-span this modelling covers, it will clearly change as time progresses as both internal and external influences have an impact. However, what it does provide is an indication of the long-term viability of the Council's HRA, given the assumptions made and the plans the Council has already identified and committed to.

5. 2021/22 Housing Revenue Account Budget

5.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2022/23. This shows a break-even budget for the year, meaning there is no planned contribution to or use of uncommitted HRA balances .

5.2 It should be noted that the MTFF included within the 2021/22 HRA budget cycle and considered by Cabinet on 27th January 2021 estimated a break-even budget for 2022/23.

Balances

5.3 The prudent level of uncommitted balances for the HRA is currently £1,600k. This recognises the transfer of risk from Central to Local Government resulting from HRA Reform, as well as providing for any adverse effects of inflation, interest rates, or Right To Buy sales on the HRA. Whilst there is certainty around interest rates given we have secured long-term fixed rates on our HRA Reform settlement debt, the abolition of the debt cap and our plans to borrow does bring a risk relating to increasing interest rates. The risk surrounding welfare reform continues to be recognised in our assessment of HRA balances.

5.4 A risk assessment has been undertaken to review the minimum prudent level of HRA uncommitted balance the Council should maintain. The results of this review are set out at Appendix D and show that it would be reasonable to retain the uncommitted balance at £1,600k. This will continue to be reviewed annually.

5.5 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2023 is £1,600k, which is equal to the recommended prudent level. This means we are now running the HRA at the minimum prudent level of revenue balances, and any additional cost or saving that might arise could impact on the amount of any new borrowing undertaken.

5.6 The budget at Appendix A shows that we are using as much of our revenue balances as possible to make a Revenue Contribution to fund the Housing Investment Programme. This is because it is deemed to be a more economical use of resources, rather than fund the capital programme by undertaking additional borrowing and thus incurring additional borrowing costs. This fits with the prioritising of resources indicated in this report and in the Housing Investment Programme elsewhere on the agenda. From 2022/23 thereafter, the assumption is that where required, revenue contributions to the capital programme will be made up to the point that the minimum recommended level of balance is reached.

Income

Housing Rents

5.7 By following the rent increase formula, we are continuing to set **dwelling rents within Department for Levelling Up, Housing & Communities (DLUHC) guidelines and so the annual changes in rents paid by tenants are set by reference to national Government policy.** The average rent proposed for 2022/23 is £92.68 per week compared to a current average of £89.03, an increase of £3.65 (4.1%) per week. It is difficult to anticipate future rent increases after 2022/23, given the potential for the rate of inflation to vary in the short to medium term and also for any further changes in Government rent policy. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates.

5.8 Sales of council houses under the Right to Buy (RTB) scheme could reach 40 this year (46 sold in 2020/21 and 31 sold in 2019/20), which is broadly in-line with the number included in the 2021/22 HRA budget. The level of sales has levelled out in recent years, therefore the 2022/23 budget has been set assuming the sale of 30 properties, being broadly in line with recent years. The MTFF and longer term modelling does not assume a reduction in the number of sales until 2027/28. However, these assumptions will be reviewed annually as part of our future budget setting.

5.9 The budget for 2021/22 has been set using the assumption that there will be a loss of rental income of 1.50% resulting from empty properties. This is consistent with the 2021/22 budget and is intended to provide for any additional void loss that may arise as a result of the various changes being undertaken within the housing stock.

5.10 Given the abolition of the debt cap, Cabinet has already agreed plans to increase our Council Housing stock, through a combination of new build and acquisitions. The 2022/23 budget includes an estimate for the additional rental income these measures will generate.

Other Income

5.11 The rents for garages are included in the fees and charges report agreed by the Portfolio Holder for Housing and Communities, and continues the policy that reflects a pricing strategy based on market forces.

5.12 There are a range of other fees and charges for services which are made to Tenants and Leaseholders, which are agreed by the Portfolio Holder. The budget for 2022/23 assumes that the demand for these services will remain the same as the current financial year, unless mentioned otherwise.

5.13 The de-pooling of service charges to individual tenants was implemented in 2008/09. There have not been any new service charges introduced for 2022/23, only an update of existing charges to reflect the actual cost of the services provided.

Expenditure

Colchester Borough Homes Management Fee

5.14 The management fee provides funding to CBH for the services they provide under the management agreement and is funded from several sources within the Council's accounts, namely the Housing Revenue Account, the Housing Investment Programme, as well as the Council's General Fund. The following table analyses the total CBH management fee, and provides details of where the funding is shown in the Council's overall budget:

Breakdown of 2022/23 CBH Management Fee

	Budget 22/23	***Funding Source***
	£	
CBH Management costs	4,060,800	CBH Ltd Management Fee at Appendix A
R&M Management Fee	584,000	Included in Repairs & Maintenance at Appendix A
R&M Works	3,210,300	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**7,855,100**	
Capital Fee	1,296,000	Included within the 2022/23 Housing Investment Programme
Sub-Total: HIP	**1,296,000**	
Professional Support Unit	128,400	Included within the 2022/23 General Fund Budget
Housing Options Team	660,900	Included within the 2022/23 General Fund Budget
Facilities Management/ Engineering Team	529,800	Included within the 2022/23 General Fund Budget
Housing Systems Team	90,100	Included within the 2022/23 General Fund Budget
Sub-Total: General Fund	**1,409,200**	
Total Management Fee	**10,560,300**	

5.15 The base management fee for 2022/23 includes an allowance for inflation and the increase in employers National Insurance contributions from April 2022 as implemented by the Government, along with provision for an increase in material costs for responsive and void repairs work. Furthermore, the one-off allowance made for the increased employer pension contributions CBH now have to pay following the schemes actuarial review has fallen-out in 2022/23.

5.16 Members will be aware that at its meeting on the 27th November 2013, Cabinet approved the Council's 30 year HRA Business Plan. The revised HRA Business Plan being considered elsewhere on the agenda, the 2022/23 budget and management fee include the continuation of a number of service enhancements, which reflect the strategic priorities identified by Cabinet. The majority of these are incorporated within the existing CBH Management Fee and Council budgets, with additional resources being directed in particular to supporting tenants.

Management Costs

5.17 The 2022/23 HRA budget includes £6,247,300 for management costs, an increase from 2021/22 (£6,048,600). Management costs form a substantial part of the HRA annual expenditure, and they consist of budgets managed directly by the Council, as well as those which are managed on behalf of the Council by CBH. Further information along with an explanation for any material changes from the 2021/22 budget is given in the following paragraphs;

5.18 The budget for Employee costs has increased by £14,200 for 2022/23. This primarily relates to provision for a pay award and an increase in the ICT training budget.

5.19 The budget for Premises costs has increased by £207,200. The budget for utility costs has increased by £186,300 recognising the national increase in gas and electricity prices, along with an increase in the grounds maintenance budget of £22,600.

5.20 The HRA receives a significant level of recharges from other Council services, along with a proportion of central support costs, such as Corporate and Democratic Core and Pension costs associated with the back-funding of the scheme. The total budget for 2022/23 has decreased by £29,700 from 2021/22.

Repairs and Maintenance

5.21 The 2022/23 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £5,748,200 has been included in the budget for repairs and maintenance (compared to £5,419,000 in 2021/22), of which £3,794,300 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,739,700 is included in the budget for those works which are managed by CBH on behalf of CBC, such as external decorating and gas servicing, but where CBC still hold the contract. The balance of the budget is for works to sewage pumping stations, temporary accommodation and other CBH delegated areas. The revenue budget provides for repairs that are undertaken on a responsive basis, as well as works to void properties, and maintenance which is carried out under a planned programme such as external decorating and gas servicing.

Capital Financing Costs

5.22 The budget includes the statutory charges to the HRA for the interest costs of the Councils borrowing in respect of the housing stock. This represents a significant proportion of the Councils HRA expenditure each year. It is worth noting that any new borrowing to fund the overall Housing Investment Programme next year may be borrowed internally from the Councils General Fund, subject to the levels of borrowing required and funding available, which is at a lower rate than would be payable were we to borrow externally. This also delivers a benefit to the General Fund, as it would be receiving more interest than it would attract were it to invest externally. This approach has been considered and agreed as part of the Council's treasury management strategy.

5.23 No provision has been made at this point in time for the annual repayment of any HRA debt, as there is no statutory duty to provide for it. The Council though is statutorily responsible for self-managing its long-term indebtedness. The Council is forecast to have circa £156million of housing debt at the start of the next financial year, and it would be prudent to start to consider providing for some repayment in the future. The Treasury Management Strategy Statement approved by Cabinet on 25th January 2012 stated "That the Council plans to make Voluntary Revenue Provisions (VRP) for the repayment of HRA debt to enable maturing debt to be repaid, whilst ensuring that this does not create an adverse impact on the business case". However, this also needs to be considered alongside the investment requirements of the housing stock, and the clear message from Government that local authorities are expected to increase their Council housing stock to help address the housing crisis.

5.24 Given the need to undertake additional HRA borrowing to support the Housing Investment Programme over the next 5 years, it would currently seem impractical to set-aside revenue resources for debt redemption over this period of time, which as a result would leave a funding gap which would need to be met by further borrowing (and hence incur additional revenue interest costs). However, this should be considered each year as part of the Councils annual budget setting process and review of the 30 year HRA financial model. Given the medium term investment needs currently identified and priorities agreed by Cabinet, it is proposed that no voluntary provision for debt repayment is included in the 2022/23 budget or MTFF at this point in time.

5.25 The 2022/23 Housing Investment Programme report included elsewhere on the agenda contains significant capital spending plans over the next 5 years, directly as a result of the Governments abolition of the HRA debt cap and the clear signal and expectation that Councils will increase the supply of Council housing through new build etc. This expenditure will be funded through a combination of using our retained 1-4-1 Right To Buy receipts, and prudential borrowing. The Councils General Fund is already able to borrow using prudential borrowing, so the HRA is simply being treated consistently.

5.26 The Councils Treasury Management Strategy is included elsewhere on the agenda, and contains prudential indicators which assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances, and include the HRA. It is also proposed to continue using the following indicator within this report, which is a measure also adopted by Registered Providers to demonstrate how easily they can pay their interest costs:

5.27 **Interest Cover Ratio.** This indicator identifies the ability of the net operating surplus in the HRA to meet the interest costs of HRA debt. It would be reasonable to expect this indicator to be in the region of 1.50 or above.

20/21 Actual	**21/22 Estimate**	**22/23 Estimate**	**23/24 Estimate**	**24/25 Estimate**	**25/26 Estimate**	**26/27 Estimate**
2.09	1.64	1.74	1.73	1.60	1.70	1.68

Revenue Contributions to Capital Outlay (RCCO)

5.28 The Council has continuously made revenue contributions to capital spending recognising the significance of targeting resources to invest in our Housing Investment Programme. Given the regime of HRA self-financing and the additional revenue resources subsequently generated, the Council is able to make significant revenue contributions to support the capital investment included within the Housing Investment Programme.

5.29 The revenue contribution included in the estimates is £3,979,300. The majority of this budget is to support the capital work programmes to the housing stock in 2022/23, which are included within the Housing Investment Programme report elsewhere on the agenda. However a provision of £60,000 has been included for ICT, which is intended to support various projects as they arise during the year.

Risk areas and budget review process

5.30 Some of the key variables that may impact during the year are shown in the table below:-

Area	**Comment**
Rental Income	The budget makes assumptions on the future level of Right To Buy sales and void levels. These are to a certain extent demand led and due to the significance of Rental Income within the HRA, can have a significant effect on the level of the HRA balance. Furthermore, the risk exists that the Government could change rent policy unexpectedly, as demonstrated by the rent reduction announcement in 2015.
Governments Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. As well as providing for transaction costs etc, the budget also includes an estimate of the potential impact upon rent arrears and consequently the level of bad debts provision we would need to maintain.
New Build	The budget makes assumptions on the numbers of new properties being built, the amount and timing of expenditure, and the amount of borrowing required. These factors can all change as schemes progress.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Capital Resources have been provisionally allocated for 2022/23 within the Housing Investment Programme report contained elsewhere on the agenda. If these resources prove insufficient, then options exist to either finance capital expenditure from revenue, or undertake additional HRA borrowing. Clearly, if one of these options was pursued, then there will be a requirement to find additional resources from the HRA.
Repairs and Maintenance	Historically, this is an area where pressure has existed on budgets such as Responsive and Void repairs, given that they are demand-led. However, in recent years this has become less of a risk. These budgets now form part of the CBH Management Fee, and the terms of the management agreement specify that CBH will be liable for any overspend up to a maximum of £200k per year, but also that they may retain any underspend up to £100k per year. Therefore, there could be a reduced impact on the HRA of variations in expenditure.
Building Cost Inflation	The budget makes assumptions on future price increases for the cost of undertaking repairs & maintenance through the tender of contracts. Given the volatility of prices currently being seen, there is a risk that prices could rise further, the cost of which would have to be funded from existing resources or HRA balances.
Utility costs	The budget makes assumptions on future prices for Gas and Electricity that are consumed within the Council’s housing stock, such as Sheltered Schemes, Temporary Accommodation and Communal entrances in blocks of flats. Given the volatility of utility prices currently being seen, there is a risk that prices could rise further, the cost of which would have to be funded from existing resources or HRA balances.
2021/22 Outturn	A net overspend of £456k is currently predicted for this year, which means a lower proportion of our Housing Capital Programme will be funded from new borrowing. Any variance on the forecast will result in a higher or lower RCCO, which will have a knock-on impact on the amount of any new borrowing undertaken.

5.31 As shown in paragraph 5.30 above several key variables have been identified. It is therefore essential that a programme of formal reviews of the HRA be set out to provide an opportunity to make changes to resource allocations during the year. The following schedule therefore sets out a suggested framework for these reviews.

Review	Comment
March 2022	Updated outturn forecast.
July 2022	Provisional pre-audit outturn / current year issues etc.
September 2022/ October 2022	Mid-year review.
December 2022 / January 2023	Outturn review / Budget 2023/24.

6. Supporting Information - Medium Term Financial Forecast (MTFF)

6.1 As part of the budget process for 2022/23 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2022/23 to 2026/27. Although we are operating under the HRA Self-Financing regime, and more certainty is now in place, assumptions still have to be made around inflation rates, void levels, bad debts and increases in costs etc, which can of course change. To that extent, the MTFF should still be viewed as indicative.

6.2 Appendix C sets out the MTFF for the period analysed by the main areas of expenditure and income. This shows that the level of uncommitted HRA balance is able to be maintained at prudent levels throughout the MTFF. This is after meeting all the running costs of managing & maintaining the housing stock, along with servicing the borrowing costs on all HRA debt. It is also after substantial revenue contributions have been made to support the Housing Investment Programme. Planning to run the HRA balance at the minimum prudent level fits with the principle that it is more cost effective to minimise/reduce borrowing costs where possible, rather than hold a higher revenue balance than is prudently required, whilst also providing reassurance to tenants and residents that the Council is wisely managing its finances and its housing stock. This approach fits with the principle referred to in paragraph 5.6 above. The recommended level of uncommitted balance on a risk based approach is £1,600k. There are several factors which can affect the forecast position, namely:-

- ***Capital financing***

Given the treasury management strategy relating to our HRA Reform debt settlement was to borrow at fixed interest rates, this means we are able to plan with certainty into the long-term surrounding the financing costs of this debt. The MTFF includes assumptions on the interest rate we will have to pay on the further HRA borrowing that would need to be undertaken to support the Housing Investment Programme, included elsewhere on the agenda. Given that any future additional borrowing would be undertaken at the prevailing interest rates at the time, for the purposes of the MTFF a reasonable assumption has been made on what those rates might be. This will be reviewed as part of the annual budget setting process.

- ***Rental income***

From 2022/23, the MTFF reflects the Governments announcement that rent increases will return to the previous formula of CPI + 1% up until 2024/25. There has been no indication from Government what rent policy would be after that year, but we are prudently assuming rents will increase by CPI only from 2025/26. The assumptions on the number of Right To Buy sales and the level of anticipated rent lost through void properties have been updated to reflect recent activity, but once again these are areas which can significantly alter the forecast of Rental Income and are to a certain extent demand led.

- ***Welfare Reform***

Continued provision has been made within the MTFF for the estimated potential effect on levels of rent arrears and bad debts, resulting from the introduction of Welfare Reform by the Government. The contribution to the provision for bad debts has been broadly maintained at the level for 2021/22 going forwards, with the level of provision being reviewed annually as part of the budget setting process.

6.3 The MTFF therefore provides a baseline position against which to make decisions as to the allocation of HRA resources and to determine the budget strategy over the next 5 years. The MTFF will be updated on a regular basis.

7. Supporting Information – 30 Year Financial Modelling

7.1 The implementation of HRA Reform in 2012 brought the expectation that Councils will take a greater business planning role when managing their Housing Revenue Account. Cabinet are being asked to approve the revised HRA Business Plan elsewhere on his agenda. This includes a 30 year financial model which sets out the long-term position of the Councils HRA, using 2022/23 as the base year. This is summarised at Appendix E. This is set out using a standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. It incorporates expenditure & income for both revenue and capital, along with the HRA balances and debt position.

7.2 The information provided by the model for future years should be viewed as indicative. This is because a number of assumptions have to be made when projecting into the future, and the following paragraphs give some further details on these. Given the potential for these to vary, the impact upon the modelling could result in an improvement or decline in the position shown, dependant on the size of change and the degree of impact upon the plan. However, prudent assumptions are made wherever possible to protect the Councils financial position and to ensure the ongoing viability of the HRA.

7.3 Officers have undertaken sensitivity analysis on the 30 year model to evaluate the impact any change or combination of changes in the assumptions could have. Further information on the work undertaken is provided at paragraph 7.24.

Income Assumptions

7.4 One of the key drivers within the financial model is inflation. This is the factor which determines future annual rent increases for tenants, and it is this income which we are able to retain in the future to meet the increased stock investment and additional borrowing costs resulting from our increased debt arising from HRA Reform.

7.5 The Government announced that when the 4 year period of rent reductions ended, rents would revert to the previous formulaic increase for a period of 5 years. Therefore, rents will increase by Consumer Price Index (CPI) + 1% up to 2024/25 in line with this announcement. There is currently no indication to suggest what is going to happen to rent policy after this date, therefore for the purposes of Business Planning it has been assumed that rents will increase by CPI only from 2025/26 for the remaining duration of the 30 year model. As a reminder to members, a change in rent policy is the example the Government at the time quoted within the HRA Reform debt settlement that would possibly re-open the original debt settlement. However, this did not occur. Therefore, Colchester along with all other housing authorities nationally, entered into the new self-financing HRA arrangements at the time on the basis that the Government was providing certainty on national rent policy, which clearly changed.

7.6 Assumptions have been made within the model for changes in stock numbers, primarily from Right to Buy sales and from the additional stock that will be delivered as part of our new build and acquisition plans. These assumptions are consistent with those made in the budget and MTFF. The Council has entered into agreement with DLUHC to retain additional RTB receipts to deliver new affordable housing, and the proposals already approved by Cabinet should minimise the amount that has to be repaid to Government.

7.7 Assumptions have been made regarding rent lost from void properties and bad debts. An allowance has been made for ongoing operational voids, as well as an ongoing increase to the level of bad debts provision we may need to hold following the introduction of the Governments welfare reforms.

7.8 It has been assumed that income from garages will increase in line with CPI. There is the potential for this to increase, with the improvement to the financial model coming through a combination of reduced void levels as well as an increase in annual charges.

7.9 All other income budgets are assumed to increase in line with inflation.

Expenditure Assumptions

7.10 Similarly to income, inflation can have a significant impact upon expenditure levels within the 30 year financial model. It has been assumed that the Retail Price Index (RPI) will be 1% higher than the Consumer Price Index (CPI). The assumption that rents will increase by CPI + 1% means inflation on expenditure will be at the same rate as assumed for income up until 2024/25, after which there will be a 1% differential between income and expenditure assumptions (due to lack of clarity on Government rent policy after 2024/25).

7.11 Management costs have been assumed to remain at the current base level throughout the life of the 30 year model, subject to inflationary increases. The exception to this is where it is known they will alter, for example tri-annual reviews of the pension scheme by Essex County Council, or where one-off sums have been included within the base budget.

7.12 Maintenance costs have been extracted from the Councils 30 year Asset Management Strategy. Assumptions have been made around future increases in line with general inflation, but these costs are also subject to changes to the BCIS (Building Cost Inflation) and market conditions that impact as contracts are re-tendered.

Funding & Financing Assumptions

7.13 The Council’s Asset Management Strategy includes the expenditure requirements of our housing stock over the next 30 years. This has been reflected in the 30 year financial model. The day to day repairs and maintenance costs are funded from the revenue account, whilst the capital expenditure requirements are funded from a variety of sources which is considered within the Housing Investment Programme (HIP) report elsewhere on the agenda.

7.14 The priority of how resources are used to fund the HIP is contained within that report for 2022/23, which in summary is aimed at using specific grants and capital receipts first, then reserves, with the intention of preserving revenue resources as far as possible as they offer the greatest funding flexibility. Should there be no or insufficient revenue resources available, then additional borrowing would be the final approach. This is because borrowing carries a cost of doing so; therefore it is treated as the last option to gain the maximum use of revenue resources available.

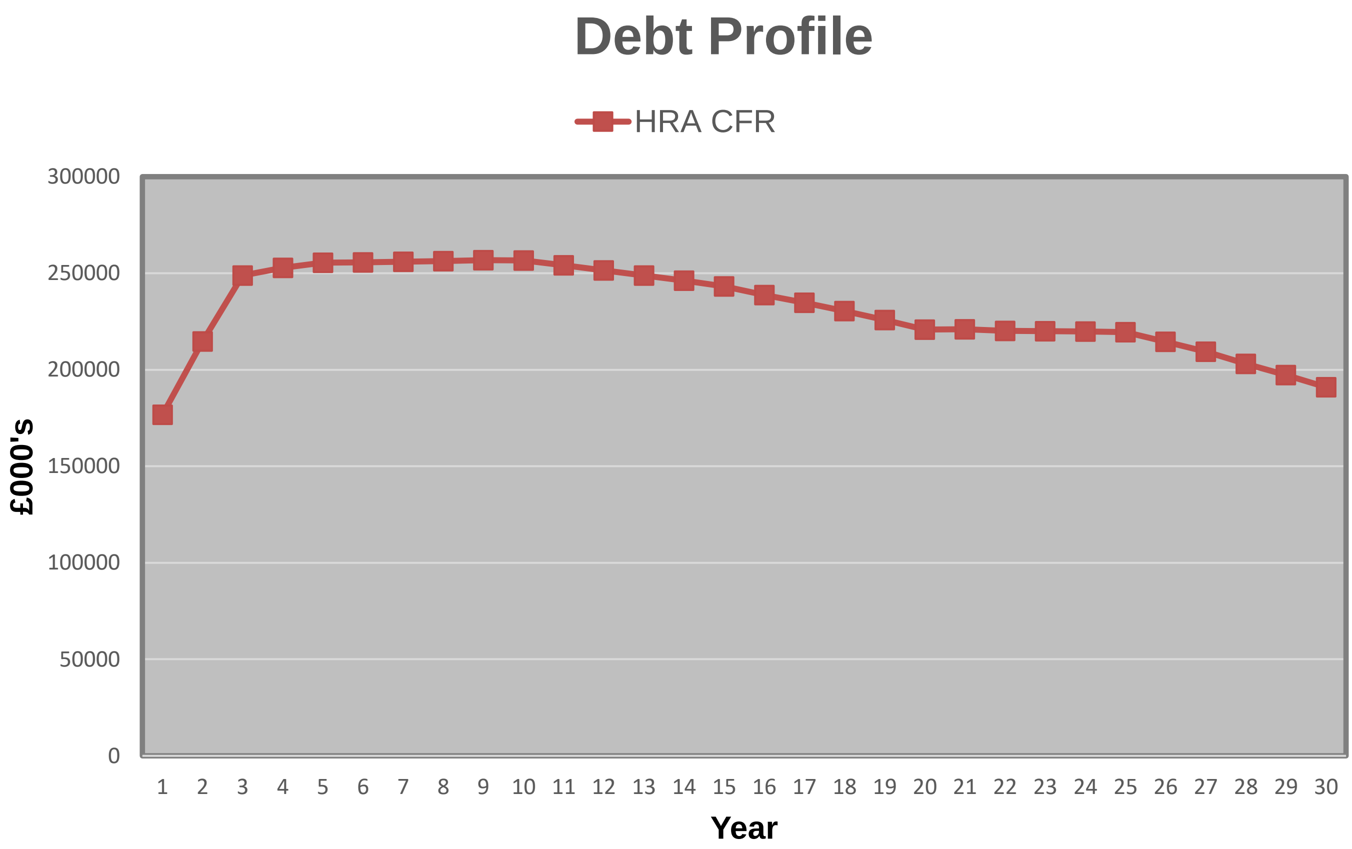
7.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

7.16 We are able to plan with certainty for the borrowing costs relating to the HRA Reform debt settlement, given that we entered into a number of long-term fixed rate loans. We are currently assuming a rate of 2.5% on any future borrowing undertaken to support the Housing Capital Programme, which will be reviewed annually as part of the budget cycle. However, it should be noted that the impact of interest rates can be significant, given any 1% change in interest rates would result in an annual cost of circa £150k (based on current levels of borrowing).

Debt

7.17 The measure of an authority's debt under self-financing is the HRA Capital Financing Requirement (HRA CFR). Our opening HRA debt on 1st April 2021 is expected to be £156.545million. As the HRA debt cap has been abolished by Government, the only constraint on borrowing now is that it is affordable under the prudential borrowing code.

7.18 The following graph shows our current debt profile that is being generated by the 30 year financial model. This works on the principle that once all of the costs of managing & maintaining our housing stock have been met, and the interest costs of our HRA borrowing have been paid, any residual income can be used to repay debt. It is important to state that this is an indication of the ability to repay debt, as what actually dictates whether debt is reduced is where the Council actually repay loans as they mature.



7.19 The above debt curve is consistent with a business plan for the HRA where a significant level of new build/stock acquisitions etc are being undertaken. In the early years, debt increases and then levels out around mid-way through the plan, then starts to reduce in the second half of the plan as rents have increased sufficiently to enable repayment of debt.

7.20 Given the abolition of the HRA debt cap, the Council is planning to undertake additional prudential borrowing to deliver the plans agreed by Cabinet, and as set out in the refreshed HRA Business Plan. The following table shows the predicted level of debt over the first 10 years of the current financial model, taking into account the additional borrowing and any provision for the repayment of debt;

Year	Forecast HRA Debt £000's
2022/23	176,663
2023/24	214,672
2024/25	248,835
2025/26	252,767
2026/27	255,420
2027/28	255,671
2028/29	255,955
2029/30	256,321
2030/31	256,755
2031/32	256,546

7.21 The projection in the above table is derived from a number of assumptions in the financial model, many of which are out of our direct control, for example inflation, Right To Buy numbers etc. Therefore the figures in the table above should be viewed as indicative.

Outlook Summary

7.22 To remind Members, the main test adopted when determining the viability of an HRA business plan is whether the debt is able to be repaid by year 30. This mirrors the process that private funders adopt when considering a stock transfer proposal, as they want to be comfortable that their borrowing is capable of eventually being repaid. However, HRA Reform has put Councils firmly in control of their business plans and it is acknowledged that Councils may wish to retain debt, and in return use those resources which would otherwise have been used to repay debt to provide even greater investment locally, whether it be in relation to the existing housing stock, the provision of new affordable housing and/or improved services to tenants. Therefore, whilst the year by which all debt would be repaid is useful as a measure, it should be considered alongside the Councils overall position on repayment of HRA debt versus the desire to provide maximum investment locally. To this extent, the debt tables in this report reflect Cabinets decisions to deliver the proposals set out in the Housing Investment Programme and plans to increase the supply of Council housing.

7.23 The focus has now moved from managing within the debt cap, to managing our overall level of debt and ensure it is affordable in the long-term. The plans to increase our housing stock should be viewed as growth, and will last beyond the current 30 year modelling. As rents increase beyond year 30, then the ability to repay debt or invest further will increase.

Sensitivity Analysis

7.24 A key part of business planning is understanding the factors that can influence the outputs, and their potential impact. Therefore, a number of sensitivities can be modelled, to see how they affect the base position. The following table sets out some examples of the sensitivity analysis undertaken and their resultant impact upon the 30 year HRA model, compared to the base position shown at Appendix E;

		Variation to Base Position			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Base Position	Reduction in Inflation of 1% over 30 Years	Increase in Inflation of 1% over 30 Years	Decrease in Inflation of 1%, Increase in RTB's by 10,Decrease in Mgt Costs by £200k in every Year	Increase in Inflation of 1%, Increase in RTB's by 10, Increase in Mgt Costs by £200k in every Year
Peak Debt Year	Year 9	Year 10	Year 5	Year 10	Year 9
Debt at Year 30	£191.0million	£238.0million	£134.6million	£251.7million	£184.0million
Capital Investment affordable over 30 Years	£532.2million	£471.7million	£605.2million	£468.2million	£599.9million
Surplus HRA Balance at Year 30	£2.6million	£2.6million	£2.6million	£2.6million	£2.6million

7.25 The sensitivity analysis in Scenarios 1 & 2 above demonstrates the impact that inflation can have on the long-term HRA model. If inflation increases, rental income (following the Governments rent policy) increases at a higher rate than expenditure. Also, a large proportion of our costs are not affected by inflation, such as the fixed rate interest costs on our borrowing. Consequently, rising inflation results in a net gain to the HRA. Conversely though, lower inflation results in a net loss to the HRA, as we receive less rental income than we save in lower costs.

7.26 The sensitivity analysis also demonstrates how a combination of variables can influence the modelling, such as changes in inflation rates, numbers of Right To Buy sales and variations in costs for example. Depending on the scale of these changes, they could either bring a significant benefit to/put pressure on the viability of the current plan, or could actually be broadly neutral. Finally, the analysis above assumes any change would exist for each of the 30 years in the HRA, which is highly unlikely given the long time-scale involved, and also assumes no corrective action would be taken if there were a negative impact, which clearly would not be the case. However, it aims to give an understanding of how changes could impact upon the current base 30 year HRA model.

8. Strategic Plan References

8.1 The revenue estimates presented here link to the following areas of the Councils Strategic Plan 2021 to 2023:

Responding to the Climate Emergency
- Reduce carbon emissions to help achieve a zero-carbon footprint for Council services for 2030
- Environment and sustainability imbedded in all Council decision making and the adaption and recovery from Covid-19

Tackling the causes of inequality and support our most vulnerable people
- Support people to live in healthy homes that meet their needs

Increase the number, quality and types of homes
- Improve existing Council homes to keep them in good repair and improve energy efficiency
- Continue to improve and modernise available housing for older people

Prevent households from experiencing homelessness
- Work with partners to deliver the 2020-23 Homelessness and Rough Sleeping Action Plan
- Intervene early to prevent homelessness and work in partnership with other organisations to sustain people’s accommodation
- Tackle rough sleeping in the Borough

Enable economic recovery from Covid 19 ensuring all residents benefit from growth
- Ensure our Borough becomes stronger post Covid 19 by supporting businesses to recover, adapt and build resilience
- Develop opportunities to ensure the new economy is greener, sustainable and more resilient

Create an environment that attracts inward investment to Colchester help businesses to flourish
- Encourage green technologies and innovative solutions to the Climate Emergency
- Maximise the social value benefits derived from third party contracts
- Ensure the Councils assets continue to contribute to economic growth and opportunity

9. Consultation and Publicity

9.1 Both CBC and CBH recognise residents play a central role in future policy setting, with the potential consideration of service improvements that would lead to changes in charges for tenants, it is anticipated that an appropriate amount of consultation will be undertaken during the course of the financial year.

9.2 The Council has conducted a Survey of Tenants and Residents (STAR) with the specific aim of obtaining customer feedback on satisfaction with services through a survey of general needs tenants, all sheltered tenants and leaseholders. CBH will need to develop a resident engagement action plan from this survey to include more consultation with residents to help tenants and leaseholders understand and take responsibility and understand safety of their homes.

9.3 Rent notices will be issued to all tenants and leaseholders in line with the Government standard period covering changes to rents and service charges for the new rent year commencing in April 2022.

10. Financial Implications

10.1 Are set out in this report.

11. Equality, Diversity and Human Rights Implications

11.1 This report has no specific human rights implications. Consideration has been given to equality and diversity issues in respect of any budget changes proposed as part of the budget process. This has been done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

12. Community Safety Implications

12.1 Through the delivery of improvements to our housing assets and the built environment, the Council seeks to achieve improved outcomes for residents across the borough. This contributes to a reduction in the occurrence of anti-social behaviour, and the incidences of crime through investment in external elements of properties, e.g. UPVC windows and doors, and door entry systems.

13. Health and Safety Implications

13.1 This report has no significant Health and Safety implications

14. Risk Management Implications

14.1 These have been taken into account in the body of the report.

15. Environmental and Sustainability Implications

15.1 The Council has clear goals and objectives around tackling the climate challenge. The new Asset Management Strategy includes how these can be supported and delivered over the next 5 years so that within the HRA the Council has a deliverable and affordable plan that will contribute to the net carbon footprint for Council services. The Housing Investment Programme for 2021/22 and 2022/23 includes provision of £4.4m which has already been agreed by Cabinet.

Appendices

- Appendix A - Housing Revenue Account Estimates 2022/23
- Appendix B - HRA Balances Statement
- Appendix C - Medium Term Financial Forecast
- Appendix D - HRA Balances Risk Management Assessment
- Appendix E - 30 Year Financial Model

Background Papers

- None

Appendix A

	COLCHESTER BOROUGH COUNCIL		
	Revenue Estimates 2022/23		
	Housing Revenue Account		
	Summary		
2020/21 Actuals £000's	**Expenditure & Income Analysis**	**2021/22 Revised Budget £000's**	**2022/23 Original Budget £000's**
	INCOME		
(26,316)	Dwelling Rents (Gross)	(27,019)	(28,064)
(1,049)	Non-Dwelling Rents (Gross)	(1,062)	(1,058)
(2,465)	Charges for Services and Facilities	(2,630)	(2,686)
(55)	Contributions towards Expenditure	(53)	(55)
(29,885)	**Total Income**	**(30,764)**	**(31,863)**
	EXPENDITURE		
4,643	Repairs and Maintenance	5,419	5,748
3,836	CB Homes Ltd Management Fee	3,813	4,061
6,821	Management Costs	6,448	6,248
131	Rents, Rates and Other Charges	165	171
205	Increased provision for Bad or Doubtful Debts	250	250
4,490	Interest Payable	5,243	5,366
16,916	Depreciation and Impairments of Fixed Assets	6,000	6,000
4	Amortisation of Deferred Charges	3	3
64	Debt Management Costs	51	52
37,110	**Gross Expenditure**	**27,392**	**27,899**
7,225	**Net Cost of Services**	**(3,372)**	**(3,964)**
(10,365)	Net HRA Income from the Asset Management Account	(3)	(3)
(1,772)	Disposal of Fixed Assets	-	-
(37)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(16)	(12)
(4,949)	**Net Operating Expenditure**	**(3,391)**	**(3,979)**
4,766	Revenue Contribution to Capital Expenditure	3,790	3,979
(183)	**Deficit/(Surplus) for the Year**	**399**	**-**
(4,306)	Deficit/(Surplus) at the Beginning of the Year	(4,489)	(4,090)
183	Deficit/(Surplus) for the Year	399	-
(4,489)	Deficit/(Surplus) at the End of the Year	(4,090)	(4,090)

Housing Revenue Account - Estimated Balances

	£'000
Balance as at 1 April 2021	**(4,489)**
Committed - Capital Spending in 2021/22 and onwards	2,490
Less budgeted deficit/use of balances in 2021/22	399
Less forecast outturn position in 2021/22	-
Unallocated balance at 31st March 2022	**(1,600)**
Less Proposed Use of balances in 22/23 Budget	-
Estimated uncommitted balance at 31st March 2023	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2023	**-**

Note:

This forecast is on the basis that there are no further calls on balances during the remainder of the year.

Appendix C

Housing Revenue Account – Medium Term Financial Forecast

Area	***Revised Budget 21/22***	***Budget 22/23***	***Budget 23/24***	***Budget 24/25***	***Budget 25/26***	***Budget 26/27***
	£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
Income						
Housing Rents	(27,001)	(28,064)	(29,075)	(30,608)	(32,767)	(33,281)
Other Income	(3,763)	(3,799)	(3,821)	(3,895)	(3,971)	(4,049)
	(30,764)	**(31,863)**	**(32,896)**	**(34,503)**	**(36,738)**	**(37,330)**
Expenditure						
Repairs & Maintenance	5,419	5,748	5,753	5,866	5,970	6,076
Running Costs	10,674	10,730	11,068	11,291	11,528	11,823
Interest Payable	5,244	5,366	5,687	6,736	7,290	7,386
Depreciation	6,000	6,000	6,175	6,497	6,824	6,978
Other Capital Financing	36	40	40	40	40	41
RCCO	3,790	3,979	4,173	4,073	5,086	5,026
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	31,163	**31,863**	**32,896**	**34,503**	**36,738**	**37,330**
Budgeted (Surplus)/Deficit	**0**	**0**	**0**	**0**	**0**	**0**
Forecast 2021/22 underspend	0	0	0	0	0	0
Revised (Surplus)/Deficit	**399**	**0**	**0**	**0**	**0**	**0**

Opening Balance	**(4,489)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**
Committed Balance	**2,490**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**399**	**-**	**-**	**-**	**-**	**-**
Uncommitted Closing Balance	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**

* It should be noted that it is currently forecast the HRA will be overspent by £456k in 2021/22, which will result in a reduced RCCO in the year. Clearly, if this level of overspend is not achieved, then there will be a resultant impact upon the level of RCCO we are able to make, and thus a knock-on impact on the amount of any new borrowing required.

Appendix D

Review of Housing Revenue Account Balances 2022/23

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £57m)	570		
Interest Rate (1.0% on £105m)		1,050	
Inflation (Decrease of 1%)		300	
Emergencies		100	
Right To Buy Sales		100	
Litigation			50
Welfare Reform	250		
	820	1,550	50

	Minimum Provision £'000
High Risk – 100%	820
Medium – 50%	775
Low – 10%	5
Sub Total	**1,600**
Other - say	-
Recommended Prudent Level	**1,600**

Housing Revenue Account – 30 Year Financial Model

Appendix E

	Year 1 2022/23 £000's	Year 2 2023/24 £000's	Year 3 2024/25 £000's	Year 4 2025/26 £000's	Year 5 2026/27 £000's	Year 1-5 Total £000's	Year 6-10 Total £000's	Year 11-15 Total £000's	Year 16-20 Total £000's	Year 21-25 Total £000's	Year 26-30 Total £000's
Revenue Account											
Income	(31,863)	(32,896)	(34,503)	(36,738)	(37,330)		(197,262)	(215,282)	(236,656)	(259,368)	(284,249)
Expenditure	31,863	32,896	34,503	36,738	37,330		197,096	215,097	236,453	259,144	284,000
(Surplus)/Deficit	0	0	0	0	0		(166)	(185)	(203)	(224)	(249)
Opening HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)		(1,600)	(1,766)	(1,951)	(2,154)	(2,378)
Closing HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)		(1,766)	(1,951)	(2,154)	(2,378)	(2,627)
Capital Account											
Investment:											
Stock Investment Programme	12,005	9,583	10,678	10,862	13,458	56,586	64,624	58,058	61,973	95,246	81,399
Sheltered Accommodation Review	7,715	3,027	7,863	3,125	1,199	22,929	0	0	0	0	0
Property Acquisitions	2,600	11,220	0	0	0	13,820	0	0	0	0	0
New Build	10,674	32,541	31,732	2,587	0	77,534	0	0	0	0	0
Total	**32,994**	**56,371**	**50,273**	**16,574**	**14,657**	**170,869**	**64,624**	**58,058**	**61,973**	**95,246**	**81,399**
Funded By (Resources):											
Depreciation	(6,000)	(6,175)	(6,497)	(6,824)	(6,978)	(32,474)	(36,670)	(40,120)	(43,938)	(48,118)	(52,691)
Revenue Contribution	(3,979)	(4,173)	(4,073)	(5,086)	(5,026)	(22,337)	(26,619)	(17,939)	(18,035)	(47,087)	(28,708)
Grant	0	(4,845)	(3,641)	0	0	(8,486)	0	0	0	0	0
HRA Reserves	(2,897)	(3,168)	(1,900)	(731)	0	(8,696)	0	0	0	0	0
New Borrowing	(20,118)	(38,010)	(34,162)	(3,933)	(2,653)	(98,876)	(1,336)	0	0	(41)	0
Total	**(32,994)**	**(56,371)**	**(50,273)**	**(16,574)**	**(14,657)**	**(170,869)**	**(64,624)**	**(58,058)**	**(61,973)**	**(95,246)**	**(81,399)**
Debt:											
HRA Debt at Year End	176,663	214,672	248,835	252,767	255,420		256,546	243,242	220,879	219,481	191,037