South Cambridgeshire District Council

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| **REPORT TO:** | Cabinet | 6 February 2023 |
| **LEAD CABINET MEMBER:** | Councillor John Williams, Lead Cabinet Member for Resources | |
| **LEAD OFFICER:** | Peter Maddock, Head of Finance | |

# Housing Revenue Account Revenue & Capital Budget: 2023/2024

## Executive Summary

1. To consider the summary Housing Revenue Account (HRA) Revenue and Capital Budget for 2023/2024 and to recommend the HRA Budget to Council.

## Key Decision

2. This is not a key decision.

## Recommendations

3. **That Cabinet is requested to consider the report and, if satisfied, to recommend to Council to:**

**Housing Revenue Account (HRA): Revenue**

**(a) approve the HRA revenue budget for 2023/2024 as shown in the HRA Budget Summary as presented at Appendix A.**

**HRA: Review of Rents and Charges**

**(b) Approve that council dwelling rents for all social rented properties be increased by 7%, recognising that inflation measured by the Consumer Price Index (CPI) at September 2022, plus 1% would result in an increase of 11.1%, but that the government has introduced a cap on rent increases at 7% from April 2023.**

**(c) Approve that affordable rents (inclusive of service charge) are also increased by 7% in line with the increase for social rents.**

**(d) Approve that rents for affordable shared ownership properties are increased by 7% or RPI at January 2023 plus 0.5% whichever is the lower, from April 2023, recognising that although the government rent cap does not apply to this tenure, an increase of in excess of 7% may put undue financial pressure on these households.**

**(e) Approve that garage rents be increased by 7% in line with the increase for social rents.**

**(f) Approve the proposed service charges for HRA services and facilities provided to both tenants and leaseholders, as shown in <u>Appendix D</u>.**

**<u>HRA: Capital</u>**

**(g) Approve the required level of funding for new build investment between 2023/2024 and 2027/2028 to ensure that commitments can be met in respect of the investment of all right to buy receipts currently retained or anticipated to be received by the authority for this period. This expenditure will take the form of HRA new build, with the 60% top up met by other HRA resources.**

**(h) Approve the HRA Medium Term Financial Strategy forecasts as shown in <u>Appendix B</u>.**

**(i) Approve the Housing Capital Programme as shown in <u>Appendix C</u>.**

## Reason for Recommendations

4. To enable the Cabinet to recommend to Full Council the 2023/2024 Housing Revenue Account (HRA) Revenue Budget and Capital Programme.

## Details

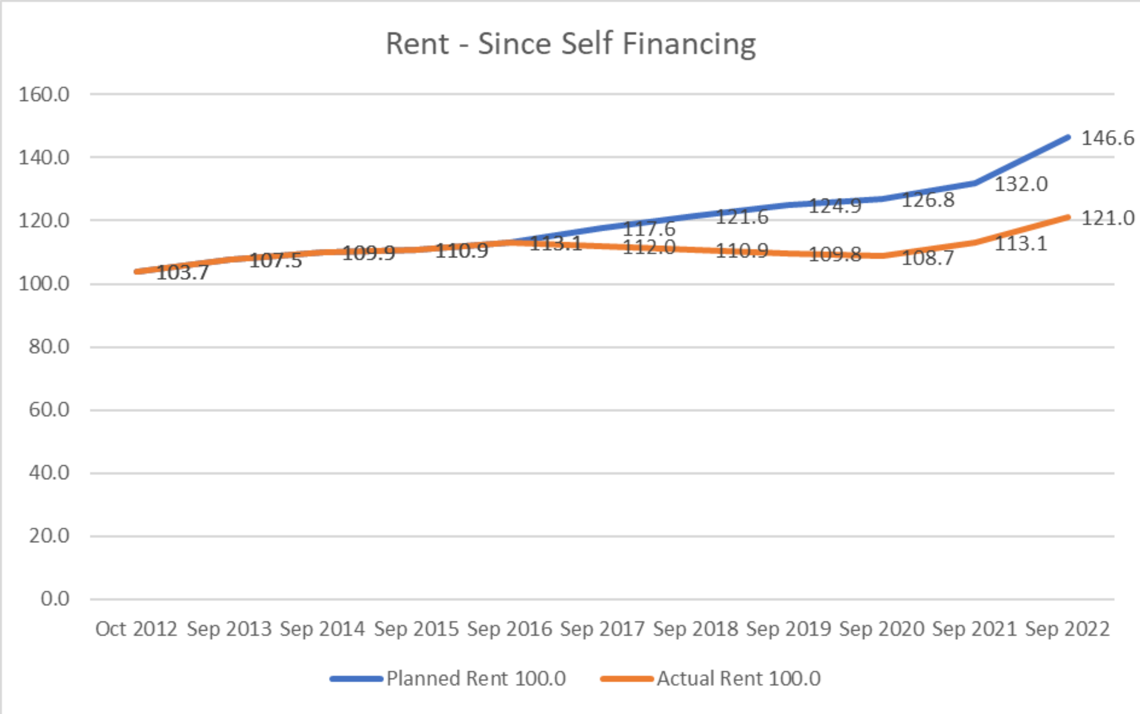
### (A) <u>Background</u>

5. The HRA is a ring-fenced area of the Council's activity and represents the landlord activity which the authority carries out as a stock retaining authority.

6. HRA budgets continue to be set in the context of a 30-year business plan, which is reviewed each year. The HRA budget setting report covers both HRA revenue and capital spending. As the authority's landlord account, the HRA accounts for all services to tenants and leaseholders and is the account into which the proceeds of the rent and landlord service charges are credited.

7. The total resource available to invest in housing is dependent upon the income streams for the HRA, the most significant of these being the rental income for the housing stock. For the four-year period ending 31 March 2020, the Council were required to reduce rents by 1% per annum to comply with a national approach to rent setting. From 1 April 2020 rents were permitted to be increased by the total of the September Consumer Prices Index (CPI) plus 1%. This was intended to be for a period of 5 years, but the current high levels of inflation prompted a government consultation seeking views on the intention to cap rent increases for 2023/24. A 7% cap was announced after the consultation concluded, recognising the increased costs being borne by social housing landlords, the need to improve energy efficiency in rented homes and the need for more affordable housing.

   The graph below demonstrates the gap between the rent to be charged in 2023/24 against the potential rent charge if the rent policy of permitting annual increases of up to CPI inflation plus 1% had been retained. Starting with a weekly rent figure of £100.00 in 2012 as an example, the rent in 2023/24 will now be £121.00 compared to a charge of £146.60 if annual increases of CPI inflation + 1% had been applied across the whole period.




Properties below target rent levels are moved directly to target rent only when they become void. Target rents continue to be set with reference to January 1999 property values. Affordable rent increases are subject to the same constraints as social rents, but with the ability to re-set the rent at up to 80% of market rent upon re-let.

8. There is a key requirement to ensure that the HRA can support a significant level of housing debt whilst also ensuring ongoing delivery of housing services. As at April 2022, the authority continued to support a housing debt of £205 million. The current policy does not assume set-aside of resource to allow for repayment of housing debt, but instead assumes the resource is used to deliver a new build programme in the medium term, in an attempt to ensure sustainability of the HRA.

**(B) <u>Budget Formulation</u>**

9. Consideration needs to be given to the fluid nature of some of the assumptions that are required to be incorporated into the financial forecasting for the HRA, particularly in relation to the impact of changes in national housing policy.

10. Assumptions will need to be continually reviewed and amended as information is made available and any changes in the economic environment become apparent.

11. The budget for 2023/2024 has been constructed in the wider context of the national position for social housing. The Council still seeks to achieve a balance in investment against key housing priorities as follows, although this still proves challenging:

- Investment in the existing housing stock with a commitment to increase energy efficiency, reduce the carbon footprint and increase the sustainability of the Council's properties.
- Investment in the delivery of new affordable homes.

- Investment in new initiatives.
- Spend on landlord services (i.e. housing management, responsive and void repairs).
- Support for, and potential repayment of, housing debt.

12. The draft revenue and capital estimates for the HRA are outlined in detail in **Appendices A to C** of the report.

13. The detailed budgets continue to be presented as a service area pack. Each pack has a title page, budget summary, individual budget pages (with similar budgets grouped together) and a subjective analysis which identifies the service area spend by type of expenditure. The budget summary gives the total of each of the budget pages and the overall budget for the HRA, whilst the detailed budget pages provide some commentary on each service budget to outline the purpose of that particular budget, together with reference to any bids and savings relating to the budget.

14. The subjective analysis shows the total budget by type of expenditure as defined by the CIPFA Service Reporting Code of Practice (SeRCOP) for Local Authorities. SeRCOP is recognised across the local authority sector as the standard way of reporting expenditure and income by type.

15. The budget is divided up into distinct areas known as Cost Centres and these are either Direct Services or Support Services (sometimes referred to as frontline or back-office services). The CIPFA accounting code requires the Council to allocate all support services to direct services and, therefore, the budget presented represents the total cost of direct services including the support costs relating to them. It is important to note, however, that cost control and responsibility for support services rests with the service area where the support service resides, not the service area where the cost is eventually allocated.

16. In line with accounting requirements, the revised budget for 2022/2023 and proposed budget for 2023/2024 continue to include relevant pension adjustments. Accounting requirements are such that the pension costs recognised in the net cost of services should be the value of the pension fund related to those employees delivering the services, rather than the actual contributions to the fund in relation to those employees. The effect of this is to increase the net cost of services but reverse the effect out within the net operational expenditure. The overall budget is not, therefore, affected as legislation requires the Council to charge only the employers contributions to the Housing Revenue Account.

### (C) National and Local Policy Context

17. The Government White Paper "The Charter for Social Housing Residents", published on 17 November 2020, remains relevant and sets out key areas that every social housing tenant should expect. Much of the responsibility for delivering against the charter sits with the landlord, and the Council continues to work positively to ensure delivery against the commitments. The Regulator of Social Housing is leading in developing a strengthened consumer regulation regime.

18. The rollout of Universal Credit continues to cause concern and challenges both for residents and for the Council, with the impact of direct payment on rent collection and rent arrears yet to be realised. The Council has resources in the budget to support and advise tenants who need financial support and will signpost to options to increase their incomes.

19. The Council's HRA owns and/or manages the following properties, broken down by category of housing provided:

| Housing Category | Actual Stock Numbers as at 1/4/2022 | Estimated Stock Numbers as at 1/4/2023 |
|---|---|---|
| General Housing (Incl. use as Temporary Housing) | 4,280 | 4,327 |
| Sheltered Housing | 1,070 | 1,070 |
| Sheltered Housing – Equity Share | 69 | 69 |
| Miscellaneous Leased Dwellings | 3 | 3 |
| Shared Ownership / FTB Dwellings | 112 | 136 |
| **Total Dwellings** | **5,534** | **5,605** |

20. A breakdown of the housing stock by property type is outlined in the table below:

| Stock Category (Property Type) | Actual Stock Numbers as at 1/4/2022 | Estimated Stock Numbers as at 1/4/2023 |
|---|---|---|
| Bedsits | 20 | 20 |
| 1 Bed | 1,124 | 1,146 |
| 2 Bed | 2,459 | 2,500 |
| 3 Bed | 1,853 | 1,859 |
| 4 Bed | 74 | 76 |
| 5 Bed | 1 | 1 |
| 6 Bed | 3 | 3 |
| **Total Dwellings** | **5,534** | **5,605** |

21. The HRA maintains the freehold in respect of flats sold under the right to buy process on long leases. Services continue to be provided to these properties in respect of repairs and improvements to communal areas and services for common facilities.

22. As at 31 March 2022, the Council held £4,892,023 of right to buy receipts under the retention agreement with the Department for Levelling Up, Housing and Communities (DLUHC). This compares to the balance of £5,115,662 as at 31 March 2021.

23. In 2021/22 the Government amended the rules regarding the use of the capital receipts arising from the sale of Right to Buy properties and the Council has entered into a new retention agreement that reflects these changes. Under the new rules, receipts will be accounted for annually rather than quarterly and the Council will now be able to fund up to 40% of new property costs from the receipts and the time limit for using the funds has increased from 3 to 5 years. Whilst up to 40% of the cost of a development can be financed from this source, the balance must be funded from the Council's own resources, or through borrowing, and the receipts cannot be used on replacement dwellings or dwellings receiving any other form of public subsidy.

## (D) <u>HRA Resources</u>

24. HRA resources comprise rent, service charges, income from garages/other property, investment income, external funding and earmarked funds. These are each considered below:

(i) Rent: Rent Arrears, Bad Debt Provision and Void Levels

25. At the end of December 2022, current tenant arrears stood at £679,170 and former tenant arrears at £369,660 compared with £672,825 and £321,253 respectively as at 31 March 2022. The position is being monitored, with staff working proactively with tenants in arrears.

26. The level of annual contribution to the bad debt provision was reviewed again as part of the HRA budget, with the contribution set at 0.5% from 2022/2023. This assumption has not been amended as part of this HRA budget setting report.

27. As at 31 March 2022, the provision for bad debt stood at £703,859, representing 75% of the total debt outstanding at the time.

28. The estimated value of rent not collected as a direct result of void dwellings in 2022/2023 is £524,043, representing a void loss of 1.66%.

29. At the end of December 2022, 84 properties were unoccupied, representative of 1.5% of the housing stock.

30. The current assumption of 1.4% voids in general housing has been increased to 1.7% for the purposes of this budget setting report.

(ii) Rent: Restructuring and Rent Levels

31. The authority still lets property on two differing rent levels, social rent and affordable rent, with the latter capped locally at the level of the Local Housing Allowance.

32. Property specific rent restructured target social rents apply for the socially rented stock held in the HRA. From 1st April 2021 both the target rent and actual rent increased by CPI plus 1% so the convergence of the actual and target rents, which was abandoned when the 1% rent reduction targets were brought in, will still not happen unless a property becomes void and the rent is moved to target on re-let.

33. The average social rent in 2022/2023, at the time of writing this report, across the socially rented housing stock was £109.04, and after applying the expected increase of 7% will become £116.67. At the time of writing this report, 47% of the social rented housing stock was being charged at target rent levels, compared with 43% in the previous year.

34. There are 338 new build or acquired properties charged at the higher ‘affordable rent’ levels, with 87 of these being shared ownership homes.

(iii) Rent Setting

35. Rent levels continue to be set by Council in February of each year, following consideration at Cabinet.

36. The Department for Levelling Up, Housing and Communities (DLUHC) updated, in November 2021, the Rent Standard guidance that registered providers of social housing must comply with. The Rent Standard is one of three economic standards that the Regulator of Social Housing (RSH) expects private registered providers of social housing to comply with and applies to local authority providers of social

housing. It sets the requirements around how registered providers set and increase rents for social housing in line with government policy as set out in DLUHC's Policy Statement on Rents for Social Housing.

37. In September each year the annual CPI figure is set which has been used to establish the limit on annual rent increases for social housing. The CPI figure for September 2022 was 10.1%, which would have led to rent increases of up to 11.1%. The government, recognising the potential for a significant rise, conducted a consultation from September to October 2022 on the imposition of a cap on rent increases. It was announced as part of the Autumn Statement on 17 November 2022 that the cap would be imposed at 7%, recognising the increased costs for social housing providers, the need for decent homes and energy investment in existing housing stock and the need for more affordable housing.

38. Affordable rents increases are also limited to a maximum increase of 7% from April 2023, but with the ability to re-set the rent at up to 80% of market rent upon re-let. Council policy is to cap affordable rents (inclusive of all service charges) at the Local Housing Allowance level. The average affordable rent in 2022/23, at the time of writing this report, was £151.56.

39. The Rent Standard published by the Regulator of Social Housing does allow for some “Rent Flexibility“, when setting the rent for a new tenant to a property. An upwards tolerance of 5% of the target rent is permitted. We will use this provision within the Rent Standard to increase the rent on re-let to 105% of target tent for those properties with an EPC rating of A or B. The increased rental income will help to finance the cost of improving thermal efficiency and reducing carbon emissions across our whole stock.

(iv) Service Charges

40. Service charges continue to be levied for services that are not true landlord functions, and are provided to some tenants and not others, depending upon the type, nature and location of the property. Some service charges are eligible for housing benefit, depending upon the nature of the service.

41. The approach to setting service charge levels for 2023/2024 is detailed in the report at **Appendix D.**

(v) Other Sources of Income

42. The HRA had 955 residential garages as at 1 April 2022, which are outside the curtilage of the dwelling. Approximately 256 garages were vacant at the time of compiling this report. A number of the vacant garages have been identified as needing repairs or major works prior to being ready to let, or are being considered for demolition, disposal, self-build sites or redevelopment.

43. A two-tier charging structure is applied for garages, with one rate for garages rented to tenants, and another for rental of garages by others, with the latter subject to VAT at the prevailing rate. If a tenant holds more than two garages, VAT is also payable.

44. In addition to dwellings held for rent, the HRA has a number of communal rooms in sheltered schemes. Currently the costs of these buildings are recovered through service charges levied to residents. A review of these assets continues to ensure that they are either well utilised for the purpose intended, or that consideration is given to

alternative options for the use of each site, generating an income for the HRA where possible. Extensive consultation is being carried out as part of this review to ensure that all local views are taken account of.

45. The HRA receives interest on general and ear-marked revenue balances, any funds set-aside in the major repairs reserve or the revenue debt repayment reserve, any unapplied capital balances and in respect of any internal lending to the General Fund. The interest rates available to the Council have risen during 2022/23 following the increases made to the Bank of England base rate.

(vi) Other External Funding

46. In addition to income direct from service users, the HRA anticipates receiving external funding from Section 106 Funding. The Council has a policy in respect of Section 106 Commuted Sums, which allows the first call on these to be to fund the delivery of new build affordable housing in the HRA. The assumption that this funding is utilised to deliver new affordable homes is identified into the Housing Capital Investment Plan.

(vii) Earmarked & Specific Funds: Revenue

47. In addition to General Reserves, the HRA Account still maintains a number of earmarked or specific funds. Details of the current level of funding in these reserves is shown at **Appendix E**.

48. A Self-Insurance Fund is maintained to mitigate the risks associated with the authority self-insuring its housing stock. Costs in lieu of insurance claims are charged to the HRA in year, with the reserve available to meet any higher than anticipated remedial costs, allowing the HRA time to react to the additional expenditure incurred.

49. A statutory Major Repairs Reserve is credited with depreciation in respect of the housing stock each year, with funding then in the Housing Capital Investment Plan, to meet the capital cost of works to HRA assets, or alternatively to repay housing debt.

50. Change in national housing policy, and the continued desire to invest resource in new build to replace lost stock and appropriately spend retained right to buy receipts, impacts the ability to set-aside resource to repay debt. This means the Council will have no alternative but to refinance a significant proportion of the loan portfolio as each loan matures. The approach of using an ear-marked reserve, as opposed to making a formal voluntary revenue provision, allows the HRA to retain flexibility over the use of the limited resource that is available for set aside in the future.

(viii) Earmarked Funds: Capital Receipts

51. The HRA retains an element from all right to buy receipts over and above those assumed in the self-financing settlement, in recognition of the debt held in respect of the asset. These sums are held in a separate ear-marked capital reserve, allowing them to be utilised to repay debt should the authority so choose, or alternatively reinvest as deemed appropriate.

52. With the Right to Buy Receipt Retention Agreement in force, this reserve ensures that resource is identified for re-investment and, if necessary, repayment purposes.

## (E) HRA Revenue Account Budget: Revised Budget 2022/2023

53. Service budgets for the current financial year were reviewed as part of the budget setting process for the coming year in order to ascertain what the likely balance would be on the Housing Revenue Account at the end of the financial year. The changes are summarised in the table below:

| 2022/23 Revised Budget | Original Budget Feb-2022 £ 000's | Proposed Changes £ 000's | Revised Jan-2023 £ 000's |
|---|---|---|---|
| Rental Income | (31,668) | 184 | (31,484) |
| Other Income | (1,995) | (141) | (2,136) |
| Supervision and Management | 7,178 | (369) | 6,809 |
| Repairs | 5,351 | 358 | 5,709 |
| Depreciation | 6,902 | 388 | 7,290 |
| Other Expenditure | 1,311 | (105) | 1,206 |
| Revenue Funding of Capital Expenditure | 9,162 | 0 | 9,162 |
| Loan interest | 7,193 | 0 | 7,193 |
| Interest receivable | (960) | (264) | (1,224) |
| IAS 19 (Pension Cost) Reversals | (613) | 105 | (508) |
| Transfer from Earmarked Reserves | 0 | 0 | 0 |
| **Revised Net HRA Use of Reserves** | **1,861** | **156** | **2,017** |

54. The above figures include any rollover approvals from 2021/2022 in the second column along with other amendments listed on a category-by-category basis. The resulting change in the use of reserves is also identified for the current year. The middle column shows the difference between the original and revised budgets. The net increase in costs for 2022/2023 will result a higher call on the use of HRA reserves and a deficit to the HRA reserve.

## (F) HRA Revenue Account Budget: Budget 2023/2024

55. The HRA balance at the start of the financial year was just above £5.3 million. It is considered that this balance is adequate for HRA purposes and above the minimum level of £2.5 million considered prudent.

56. The Council has commenced a transformation programme which will deliver savings across the authority and some of these savings will fall on the HRA services. It will also be necessary to ensure that efficiency savings are sought within the HRA to ensure that the account remains viable so the savings initiatives that were undertaken during this budget process for the General Fund should be extended to encompass the HRA for the next budget cycle.

57. Expenditure excluding capital charges has increased by £1,106,000 over the 2022/2023 original position, although £537,000 relates to accounting adjustments for pension costs that are reversed out. Capital expenditure charged to revenue has increased significantly on the previous year by £5,752,000 but the increase is funded from earmarked reserves. The reprofiling of the capital program to include £15 million in 2023/24 for the acquisition of homes for refugees has led to this increase.

58. Rental income has increased by £2,514,000 as a result of the aforementioned rent increase of 7% and the additional homes being delivered by the New Homes Programme.

59. The proposed budget is based on an HRA deficit of £2.0 million in 2022/2023 and a deficit of £0.5 million in 2023/2024.

60. The overall revenue budget position for the HRA for 2023/2024 is presented in **Appendix A**. A balanced budget can be set for 2023/2024, with the account balance on the account balance remaining above the desireable £2.5 million minimum level.

### (G) Housing Capital Budget

#### (i) Stock Investment and Decent Homes

61. The new Housing Management Information System, known as “Orchard” allows for better use of asset management data, more efficient planning of future works, and better integration between revenue (day to day repairs) and capital (investment) for council housing. A full stock condition survey of all tenanted properties will take place during 2023/24 to update the asset management data held.

62. As at 31 March 2022, 95.13% of the housing stock was reported as decent, compared with 94.23% at 31 March 2021; with 269 properties that were considered to be non-decent (in addition to refusals by tenants to access the property and undertake the necessary works). In the year to 31 March 2022, access to properties considered to be non-decent was refused by 168 tenants.

63. The Council aims to be carbon neutral by 2050 which includes the housing stock. As part of the work to explore and trial technical solutions, South Cambridgeshire District Council joined NetZero Collective in 2019, which brings together a number of organisations including the Dept Climate Change, Buildings and Energy, Southampton University and a number of Social Landlords.

64. An application has been made to the Social Housing Decarbonisation Fund (SHDF), to improve the energy performance of properties identified with a current EPC rating below C, up to that standard. The total works value is £4.2 million but if successful, 50% of the cost will be funded through the SHDF. Applications to other similar funding initiatives are being explored.

65. There is no statutory requirement in existing dwellings to provide either smoke or Carbon Monoxide Detectors but it is considered good practice to do so. The Council, therefore, provides smoke detectors to all properties. In addition, Carbon Monoxide Detectors are provided to all properties with gas. The budget includes provision for the full replacement of both wired in detectors on a rolling programme of 10 years for smoke detectors and 10 years for Carbon Monoxide Detectors. Battery alarms are replaced more frequently, between 5-10 years.

66. The Capital programme has been updated and is reproduced at **Appendix C**.

#### (ii) New Build and Re-Development

67. At the time of writing this report 235 new homes had been completed since April 2012, all of which were built as affordable rented homes, with a further 87 shared ownership homes also completed.

The table below shows the movement in the rented stock numbers over recent years, with the increased number of properties delivered through the New Homes Programme giving rise to a net gain in stock numbers over the period:

| Year | Right to Buy Sales | Acquisitions | New Build Rented | Net Gain / Net Loss | Demolitions / Disposals | Total Net Gain / Net Loss |
|---|---|---|---|---|---|---|
| 2013/2014 | 28 | 0 | 0 | -28 | 0 | -28 |
| 2014/2015 | 29 | 0 | 0 | -29 | 0 | -29 |
| 2015/2016 | 23 | 0 | 0 | -23 | 0 | -23 |
| 2016/2017 | 33 | 12 | 37 | 16 | 0 | 16 |
| 2017/2018 | 20 | 3 | 6 | -11 | 24 | -35 |
| 2018/2019 | 15 | 6 | 24 | 15 | 0 | 15 |
| 2019/2020 | 19 | 0 | 22 | 3 | 4 | -1 |
| 2020/2021 | 10 | 0 | 46 | 36 | 0 | 36 |
| 2021/2022 | 14 | 0 | 72 | 58 | 0 | 58 |
| | | | | | | |
| | **191** | **21** | **207** | **37** | **28** | **9** |

68. The table below updates the position in respect of schemes either in progress or with Lead Cabinet Member approval, with the budgeted expenditure included at **Appendix C**.

| Scheme | Status | Number of Affordable Units |
|---|---|---|
| Babraham Road, Sawston | On site | 18 rented plus 3 shared ownership to be completed |
| Strawberry Farm, Great Abington | On site | 2 rented plus 1 shared ownership |
| Meadowcroft Way, Orwell | On site | 4 rented |
| Phase 2B, Northstowe | Contracts to be exchanged | 60 rented |
| Downing Gardens, Gamlingay | On site | 24 rented plus 10 shared ownership |
| New Road, Over | On site | 13 rented plus 5 shared ownership |
| Rampton Road, Cottenham | Contracts to be exchanged | 39 rented plus 17 shared ownership |
| **Total** | | **160 rented**<br>**36 shared ownership** |

69. There are a number of schemes where feasibility work is being carried out with a view to building out the sites for the HRA directly, or alternatively negotiations are in progress with developers, for the HRA to acquire the affordable housing on existing new build development schemes. These schemes do not yet have formal approval and, as such, have not yet been built into the Housing Capital Investment Plan on a scheme specific basis. Instead, an unallocated new build budget is included, which when a scheme receives Head of Housing and Lead Cabinet Member approval, allows resource to be transferred from this unallocated new build/acquisition budget to the scheme specifically to allow monitoring of progress.

70. Some schemes deliver only new provision of affordable rented housing and, as such, will be eligible for 40% of the scheme to be funded using retained right to buy receipts. Many of these schemes, in order to be planning policy complaint, include a mix of affordable rented and intermediate housing (usually shared ownership). Shared ownership dwellings are not currently eligible for use of retained right to buy resource, but instead can be part funded using S106 commuted sums if available.

71. The assumption has been retained, that the authority utilise resource previously set-aside for the potential redemption of housing debt, combined with revenue resource that can be released as a result of capital receipts that have been received from the sale of HRA land and dwellings on the open market in recent years, or that are anticipated to be received, to fund building new homes. This is anticipated to provide sufficient resource to allow the appropriate re-investment of existing and anticipated retained right to buy receipts.

72. Where a suitable parcel of land is identified and it can accommodate more than one plot, the Council will first consider preparing the land for its own development and the provision of affordable rented homes.

73. It has been recognised that the effort and cost involved to prepare and market parcels of HRA land for sale as self-build plots is not achieving the desired level of capital receipt. The HRA is required to ensure that best value is achieved on a plot-by-plot basis, achieved and demonstrated by marketing the dwelling(s) on the open market. Plots are now, therefore, marketed more widely, with the Council prepared to consider and accept competitive offers from developers as well as self-builders, in order to achieve the best capital return for the HRA. The capital receipts achieved from this process will then be available for reinvestment by the HRA to release resource elsewhere in the capital programme, thus facilitating the delivery of new homes in the district.

74. The Council has been awarded £4.5 million as part of the Governments Local Authority Housing Fund. The funding is to help the Council to acquire 30 additional homes. These will initially be used to accommodate refugees from Ukraine and Afghanistan, but when they are no longer needed for this purpose, the home will be available through the housing waiting list. 28 of the homes will be for Ukrainian refugees, and the council will receive 40% of the cost plus £20k per property. The other 2 properties will be larger properties, 4 bedrooms or over, and the council will receive 50% of the cost plus £20k per property.

The Capital programme shown in **Appendix C** has been updated to bring forward £11 million of the unallocated new build budget allocation into 2023/24 for these acquisitions.

(iii) Section 106 Funding

75. Commuted sum payments received through the planning process, in lieu of the delivery of affordable housing, are made available in the first instance to the HRA to invest in affordable homes.

76. The Council currently holds £2.1 million in commuted sums for affordable housing. The following table provides an update of when current sums held must be spent (year-end prior to deadline date), against the resource committed to date.

| Year | Section 106 sum to be spent | Cumulative Section 106 sum to be spent | Resource committed / spent<br>General Fund | Resource committed<br>HRA | Cumulative resource still to be committed |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| 2026/27 | 931,420 | 931,420 | 0 | 931,420 | 0 |
| 2027/28 | 0 | 931,420 | 0 | 931,420 | 0 |
| 2028/29 | 494,614 | 1,426,034 | 0 | 1,426,034 | 0 |
| 2029/30 | 339,654 | 1,765,688 | 0 | 1,765,688 | 0 |
| 2030/31 | 44,517 | 1,810,205 | 0 | 1,810,205 | 0 |
| 2031/32 | 127,500 | 1,937,705 | 0 | 1,925,000 | 12,705 |
| 2032/33 | 172,377 | 2,110,082 | 0 | 1,925,000 | 185,082 |
| | **2,110,082** | | | **1,925,000** | |

Commitments to date include:

| Scheme | Fund | 2022/23<br>£ | 2023/24<br>£ | 2024/25<br>£ | 2025/26<br>£ |
|---|---|---|---|---|---|
| Babraham Road, Sawston – contribution to 3 shared ownership home | HRA | 150,000 | | | |
| High Street, Meldreth – contribution to 3 shared ownership home | HRA | 75,000 | | | |
| Swavesey, Boxworth End – contribution to 4 shared ownership home | HRA | 200,000 | | | |
| Gt Abington, Strawberry Farm – contribution to 1 shared ownership home | HRA | 50,000 | | | |
| Waterbeach, Cody Road – contribution to 2 shared ownership home | HRA | 100,000 | | | |
| Gamlingay, Downing Gardens – contribution to 10 shared ownership home | HRA | 250,000 | 250,000 | | |
| Rampton Road, Cottenham – contribution to 17 shared ownership home | HRA | | | 450,000 | 400,000 |
| | **HRA** | **825,000** | **250,000** | **450,000** | **400,000** |

77. With £185,082 of resource still to be re-invested, there is a commitment to invest the sum in new HRA homes wherever possible. It is likely, although not guaranteed, that the funds will be utilised predominantly to deliver other forms of affordable and intermediate housing, such as shared ownership or shared equity.

(iv) Asset Acquisitions and Disposals

78. The Right to Buy Retention Agreement with DHUHC allows the acquisition of existing dwellings, as an alternative to building new homes, although new supply remains the priority. Acquisition is a valid option when new build is not possible within a quarterly deadline for the use of retained receipts. If a decision is taken at the end of a quarter that there is a risk that new build schemes will deliver in the required timeframes, resources can be vired from the unallocated new build/acquisition budget into the budget for direct market acquisition. This risk has, however, been reduced under the new retention agreement, which allows 5 years from the original receipt for right to buy receipts to be spent.

79. Receipts from individual asset disposals are only recognised in the HRA's reserves when received, and after all relevant costs have been provided for. There are assumptions incorporated in the budget about the level of receipts from the sale of self-build plots and HRA land. These capital receipts will allow planned utilisation of the funds to release resource elsewhere in the HRA to facilitate the appropriate reinvestment of retained right to buy receipts.

(v) Capital Spend and Phasing

80. The updated Capital programme is presented to Cabinet and includes re-profiling and updating the capitalised repairs budgets, new house building budgets and transferring resources from the unallocated sum to schemes that have now been identified.

## (H) HRA Treasury Management

(i) Background

81. Statutorily, the HRA is required to set a balanced budget, including recognition of the revenue implications that arise from capital financing decisions.

(ii) HRA Borrowing

82. The loans As at 1 April 2022, the HRA was supporting external borrowing of £205 million in the form of 41 maturity loans with the Public Works Loans Board (PWLB), with rates ranging between 3.44% and 3.53%. have varying maturity dates, with the first £5 million due to be repaid on 28 March 2037 and the last on 28 March 2057.

83. The HRA Capital Financing Requirement (HRA CFR) stood at £204 million due to a small amount (£694,000) of internal borrowing from the HRA by the General Fund. The General Fund is required to pay the HRA annual interest on the internal borrowing as part of the Item 8 Determination for the HRA. The interest rate payable to the HRA can be determined by the authority but must be deemed reasonable and stand up to external scrutiny from auditors.

84. Recent changes in legislation mean that the HRA is no longer subject to a borrowing debt cap. The authority can borrow within its HRA as long as it can demonstrate that

the HRA can support the borrowing and that the resource is being utilised in the provision of social or affordable housing. A local debt cap has been calculated at £250 million as of 1st April 2019 rising to £300 million at 31st March 2022. This has been reviewed and based upon expected HRA income and expenditure levels, is still considered to be at the correct level.

85. The Council may choose to borrow to deliver additional affordable housing to ensure that it can maintain a programme of new build affordable housing over the longer-term. The Capital Programme assumes that no borrowing will be required in 2023/2024 but that £9.5 million will be borrowed over the years 2024/25 to 2027/28.

86. The 2022/2023 HRA Budget Setting Report does not review the potential sources of lending (i.e. Internal, Inter-Authority, Public Works Loans Board, Market) types of borrowing, lengths of loans or rates available for taking out any additional borrowing at this stage. This will need to be undertaken at the point at which any borrowing is considered as part of the coming year's budgets.

(iii) Debt Repayment/Re-Investment

87. The current debt repayment strategy for the HRA, not to set-aside resource to repay housing debt, but to instead invest resource in new build housing, assumes the need to re-finance the borrowing when loans mature.

88. The potential debt repayment or re-investment reserve stood at £8.5 million as at 1 April 2022 with the current assumption that this will be re-invested in order to extend the life of the business plan, once other resources are fully exhausted.

89. Regular consideration will need to be given, in the context of the current financial climate, whether the authority wants to retain the current re-investment strategy or re-consider some element of set-aside if resources allow.

## Options

90. There are a number of other options regarding budget setting, but the budget as presented represents the best use of resources within the constraints that exist**.**

## Implications

91. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

***Policy***

92. Housing is one of the Council's top priorities, with a commitment to deliver good quality housing which is affordable for people to live in, near to where they work. There are currently 1,885 households on the Council's waiting list, with Council housebuilding continuing to be regarded as a high priority.

***Legal***

93. The pressure to reduce budgets and the continuation of a poor financial settlement could adversely affect the provision of statutory services. Officers will be required to

seek legal advice in relation to a few the national changes in housing policy as the regulations are released by Central Government.

***Financial***

94. These are outlined in the report and its supporting appendices.

***Risk***

<u>General</u>

95. An annual update to the assessment of the key risks which the HRA faces in financial terms was included as part of the HRA Medium Term Financial Strategy.

96. The authority maintains a risk register, incorporating specific risks affecting the Housing Revenue Account, considering the likelihood and impact associated with each risk, and the mitigation in place to counteract these. The risk register is regularly reviewed and updated.

97. General reserves are held to help manage risks inherent in financial forecasting. Risks include changes in legislative and statutory requirements, inflation and interest rates, unanticipated service needs, rent and other income shortfalls and emergencies. The reserve allows the authority time to respond to unanticipated events, without an immediate and unplanned impact on service delivery.

98. For the HRA, the minimum level of reserves of £2.5 million is proposed to be retained, recognising the need to safeguard the Council against the risk and uncertainty in the current financial and operational environment for housing.

***Environmental***

99. There are no environmental implications arising from this report. The Council's housing stock is largely energy-efficient and in a good state of repair and but there is a need to improve it where the Council is able to and keep it in good condition.

***Equality Analysis***

100. In preparing this report, due consideration has been given to the Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.

101. Further equalities work is being completed. Where that assessment concludes that a proposal has no relevance to the Council's equalities duties then no further action will be taken. Where it is determined that the proposal does have relevance to these duties, a full equality analysis will be undertaken by the relevant service area to establish the impact of the proposal on a protected group or groups and to identify the necessary mitigating actions.

## Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

(a) at all reasonable hours at the offices of South Cambridgeshire District Council;

(b) on the Council's website; and

(c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- 2022/2023 Budget Report – Report to Cabinet: 2 February 2022
- Capital Programme Update and New Bids – Report to Cabinet: 12 December 2022
- 2022/2023 Revenue and Capital Budget Monitoring Q2 – Report to Cabinet: 12 December 2022

## Appendices

A HRA Revenue Budget 2023/2024

B HRA Medium Term Financial Strategy: Financial Forecast 2023/2024 to 2027/2028

C HRA Capital Programme 2023/2024 to 2027/2028

D Proposed HRA Service Charges 2023/2024

E HRA Earmarked and Specific Funds

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