

Report to: Housing Review Board



Date of Meeting 11<sup>th</sup> October 2022

Document classification: Part A Public Document

Exemption applied: None

Review date for release NA

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## Housing Revenue Account Finance Update to End July 2022

### Report summary:

The report provides the Housing Review Board with current year to date and draft forecast financial outturn figures for the housing revenue account for the 2023/23 financial year. The report will also consider the implications of any forthcoming regulatory changes.

Producing a Housing Revenue Account has been a statutory requirement for Councils who manage and own their housing stock for some time, and therefore a key document for the Board to influence

The report also makes reference to the recent Government launched consultation on the social housing rent cap and invites Members to debate the topic in order for us to capture information that we can put forward as part of the consultation process.

### Is the proposed decision in accordance with:

Budget Yes  No

Policy Framework Yes  No

### Recommendation:

That the Housing Revenue Account update is noted.

### Reason for recommendation:

To give the Housing Review Board an opportunity to contribute towards the review and planning of all landlord service related finances.

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Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Democracy, Transparency and Communications
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities

Tourism, Sports, Leisure and Culture

**Equalities impact** Low Impact

**Climate change** High Impact

**Risk:** Low Risk; .

**Links to background information** [Financial information 2022/23 - East Devon](#)

[Rent cap on social housing to protect millions of tenants from rising cost of living - GOV.UK \(www.gov.uk\)](#)

**Link to [Council Plan](#)**

Priorities (check which apply)

- Better homes and communities for all
- A greener East Devon
- A resilient economy

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## Report in full

3.1 The following table shows the original budget set for the year and any supplementary estimates approved to date affecting the HRA position.

In year variances have been identified and commentary provided within Appendix 1.

Budget monitoring will continue throughout the year with the outturn position being reported early in the new financial year along with any recommended reserve movements.

HRA (Surplus)/Deficit	£000
<b>Original Budget surplus (Council 21/2/22)</b>	<b>208 (F)</b>
Predicted net (under)/overspend to year end	579 (F)
<b>Predicted Budget (Surplus)/Deficit HRA</b>	<b>787 (F)</b>

3.2 The original approved budget generates a surplus of £0.208m in 2022/23. This sum and any additional surplus is due to be added to the Capital Development Fund for future investment

3.3 The most notable risks to the above outturn position, which will be kept under review, are;

- Employee costs due to the uncertainty around the 22/23 pay award and the ongoing consultant pay review.
- Income – the current high levels of income received may be at risk due to the increase in cost of living

3.4 Inflationary pressures are also a concern and will be reviewed prior to and considered during the 23/24 budget preparation process with scenarios considered varying the four main drivers;

- Income – currently set at CPI + 1%, June being the latest release which would mean an increase of 11.1% and is likely to go higher.
- Interest Expense – currently fixed, however, refinancing will be required at the end of the year of £2.9m with interest rates rising.
- Employees Costs & Overheads – currently 28% as a proportion of income received, pay awards for 23/24 will need to consider inflationary pressures.
- Premises related costs – the remaining balance once all above assumptions are made to be reinvested into our stock.

3.5 There has been very little in capital spend to date within the HRA with the acquisition of 42 Berry Close being the only material item.

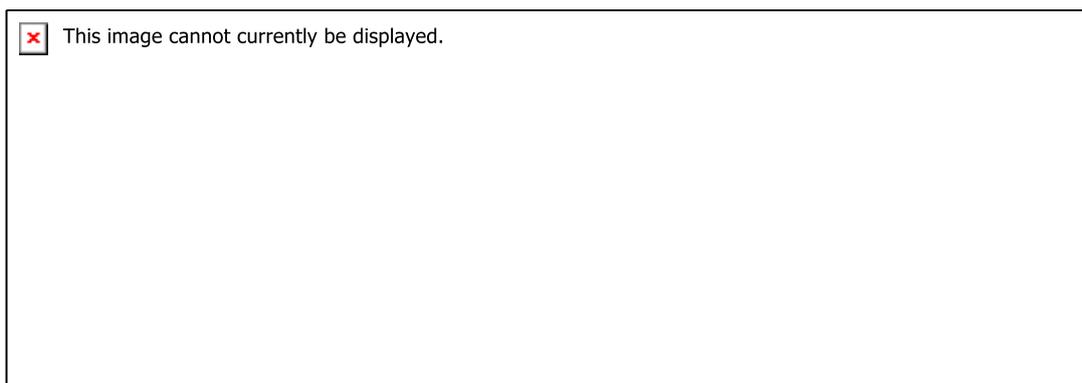
#### 4. **Social Housing Rent Cap Consultation- 31<sup>st</sup> August 2022**

4.1 On the 31<sup>st</sup> August the Department for Levelling Up, Housing and Communities released a consultation document setting out a rent cap for social housing tenants as part of measures to protect tenants from further impacts of the cost of living crisis.

4.2 Under the current policy, rent is increased in line with the consumer price index (CPI) plus 1% which would currently mean a potential increase of 11% from April 2023 onwards. The consultation suggests a rent cap is imposed that will sit at either 3%, 5% or 7% and the Government are asking for views from the sector.

4.3 From a financial perspective, we will undertake relevant scenario planning under each option to understand the consequences on service delivery and budgets, taking into account our rising costs in a number of areas- namely responsive repairs.

4.4 As an initial assessment of introducing rent caps the impact on rental income is illustrated below, with the rent increase being calculated at 10.8% (August CPI of 9.8% + 1% (September CPI will not be available until mid-October)) with comparisons to imposing different rent cap levels.



As can be seen the difference between the 10.8% rise compared to other scenarios is significant on income levels:

- 3% cap is a reduction in income of £1.473m a year
- 5% cap is a reduction in income of £1.095m a year
- 7% cap is a reduction in income of £0.717m a year

It also needs to be borne in mind that this income is not lost in just year one but will not be in the base income year after year.

4.5 Although the increase and implications on tenants affordability to meet this increase will and should be a key consideration of the Board and the Council, the cost of maintaining the housing stock will be increasing with inflation and by not keeping pace with increase income levels will necessary result in a reduction in available resources to meet current plans to maintain and improve stock.

4.6 Consultation with involved and not involved tenants

We have consulted with tenants both involved and not involved by holding a workshop on the 27<sup>th</sup> September 2022. The outcome of the consultation was:

- There was no definite answer in relation to the question on the rent cap as the tenants overwhelmingly felt that there was not enough information provided to be able to make an informed decision.
- In order to take an informed decision they would require:
  - The amount of additional funding required to maintain the current level of service delivery as they understand the costs would have increased and they not wish the current service levels to deteriorate any further.
  - The impact on major / cyclical works delivery based on the levels of increase.
  - Whether any Health & Safety works are required by regulation / legislation which are non-negotiable
  - The rent charged by other providers in Devon
  - The effect on residents claiming full and partial benefits and the numbers that would be effected.
- They felt that management of repairs and contract management could be greatly improved and this would lead to additional funding without impacting rent levels.

4.7 **Appendix 1** sets out a useful summary, Members are encouraged to also follow the link at the start of this report to access more detailed information on the consultation. We have until the 12<sup>th</sup> October to respond and would encourage input and contributions from particularly our tenant members of the Board.

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### **Financial implications:**

Contained within the report

### **Legal implications:**

There are no legal implications

## Appendix 1: HRA Commentary

Year to Date			INCOME	4Cast Outturn		
Actuals	Budget	Diff		Actuals	Budget	Diff
-6,002,651	-6,203,100	200,449	Gross Property Rents	-18,620,556	-18,609,260	-11,296
-87,082	-72,050	-15,032	Garage Rents	-202,965	-215,990	13,025
-198,786	-206,400	7,614	Other Income	-611,735	-619,600	7,865
-6,288,519	-6,481,550	193,031		-19,435,255	-19,444,850	9,595

Year to Date			EXPENDITURE	4Cast Outturn		
Actuals	Budget	Diff		Actuals	Budget	Diff
1,431,035	1,023,460	407,575	Repairs And Maintenance - General	3,718,845	3,070,580	648,265
60,993	441,270	-380,277	Repairs And Maintenance - Special	929,727	1,323,750	-394,023
4,003,305	2,372,750	1,630,555	Supervision And Management	7,048,393	7,119,670	-71,277
93,789	92,320	1,469	Other Expenditure	185,357	277,360	-92,003
4,327,380	4,373,530	-679,750	Capital Charges & Bad Debt	4,327,380	5,007,130	-679,750
9,916,502	8,303,330	979,572		16,209,702	16,798,490	-588,788

	4Cast Outturn		
	Actuals	Budget	Diff
Financing & MIRS	2,438,140	2,438,140	0

	4Cast Outturn		
	Actuals	Budget	Diff
Surplus	-787,413	-208,220	-579,193

### Commentary

1 No material variations in rents currently being experienced or forecast versus revised budget for 22/23.

2 Electrical inspections, PPP Exclusions & Non PPP property repairs currently trending higher than originally budgeted (£300k, £270k and £80k respectively based upon a 6 month average projection). A transactional level review is currently underway, jobs will either be reallocated to existing budget lines or budget will be reallocated to cover overspends from Major repairs expenditure underspends.

3 Various underspends across compliance and adaptations, currently £60k spend versus expected £440k year to date. Projections based upon historical data set.

4 Salary savings across the service, predominantly within Property and Asset as recruitment into vacant roles continues, which have been partially offset by fees for agency workers equating to a net forecast saving of £528k. A £500k increase has been included for the impact of the inflationary salary increase, which is yet to be agreed and the council wide salary review which is underway - the impact of which is also unknown.

5 Lower levels of spending in various areas such as Tenant Engagement, Change of Tenancy/Downsizing and sewerage provision.

6 Underspends across all major repairs categories, provision has been made to cover the overspends in General Repairs and Maintenance with the residual budget expected to be placed into the planned maintenance reserve.

7 It is expected that the entire £800k that has been allocated as a contribution to capital will be utilised in year for the next phase of the Green Homes works. No other variations are expected at this time.