Report to: Cabinet

Date of Meeting 10 July 2024

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Exemption applied: None

Review date for release N/A

Housing Revenue Account (HRA): Financial Review, Revised Budget & Sustainability Plan

Report summary:

The report summarises the current financial pressures facing the HRA, highlights the need for additional new borrowing to meet budget shortfall in 2023/24 and for capital investment in 2024/25 to ensure regulatory compliance. It sets out plans to improve the short-term sustainability of the HRA and outlines work underway to consider longer term options for the effective management and maintenance of the Council's Housing stock.

Is the proposed decision in accordance with:

Budget Yes ☐ No ☒

Policy Framework Yes ☐ No ☒

Recommendation:

That Cabinet Recommend that Council;

1. Approve £2.5m of additional borrowing to balance the HRA budget for the 2023/24 financial year.

2. Approve a revised HRA Budget for 2024/25 as set out in Appendix 3, and a revised Capital Programme Budget as set out in Appendix 4.

   The approval to include:

   a) That up to £1.75m be allocated from the HRA Balance Reserve to fund the 2024/25 forecast revenue budget shortfall.
   b) That a target annual revenue saving of £250k per annum be sought over 3 years to replenish the HRA Balance Reserve.
   c) That £4.4m of Voluntary Revenue Provision be used to reduce the level of additional borrowing required within the HRA.
   d) That £7.3m of new borrowing be agreed to fund the 2024/25 Capital Programme.

3. Note that £2.415m of savings and/or new additional revenue is required in 2025/26. This is needed to achieve a balanced budget, meet the increased cost arising from new borrowing in 2024/25, contribute toward the replenishment of the

HRA Balance Reserve and fund additional new borrowing for Capital Programme investment in 2025/26.

4. Note the work currently underway to investigate options and establish a longer-term strategic plan to ensure the sustainable and effective management and maintenance of the Councils Housing stock.

5. Approve a £35k budget within the HRA to increase provision to a Full-Time HRA accountant to support the service.

Reason for recommendation:

To balance the budget and provide the necessary investment for regulatory compliance and for the provision of good quality safe, affordable and warm homes for our residents.

Officers**:** Housing Strategy, Enabling and Project Manager, Director for Finance & Director for Housing & Environment

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Portfolio(s) (check which apply)**:**

☒ Climate Action and Emergency Response
☐ Coast, Country and Environment
☐ Council and Corporate Co-ordination
☐ Communications and Democracy
☐ Economy
☒ Finance and Assets
☐ Strategic Planning
☒ Sustainable Homes and Communities
☐ Culture, Leisure, Sport and Tourism

Equalities impact Low Impact

Climate change Low impact

Risk: High Risk;

Links to background information

Link to [Council Plan]

Priorities (check which apply)

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

Housing Revenue Account: Financial Review, Revised Budget & Sustainability Plan

Executive Summary

The Housing Revenue Account (HRA) is facing significant financial pressure in the immediate and longer term. The current approved budget is insufficient to meet minimum standards and achieve regulatory compliance and therefore requires revision.

The current financial pressure arise from a range of factors including an historic underinvestment for the last decade, increased consumer and regulatory standards, general cost price inflation, restrictions in rent increases, net zero expectations, disrepair claims, high void and decant costs and other issues such as financial management. External advisors are stating that similar cost pressures are being seen in other stock holding local authorities.

A significant budget overspend in 2023/24 has required the allocation of the entire £9.3m 'useable' HRA reserves, part of which was set aside for 'catch up' repairs. In addition, a further £2.5m of new borrowing is now required to balance the books for 2023/24. In setting the 2023/24 budget the use of reserves was identified as being required in year to support additional expenditure, but it was envisaged a revised budget would come forward in year based on stock condition findings – this was not finalised in year.

The current (2024/25) HRA revenue budget is projected to be overspent by £1.71m in the current year. It is proposed, that up to £1.75m from the HRA Balance Reserve be used to fund this shortfall. With regard to the capital budget, the HRA requires an additional £7.3m of new borrowing to fund capital investment in order to achieve regulatory compliance and meet other existing capital commitments.

A Financial Sustainability Plan is in place to address and respond to the short-term financial pressures facing the HRA. This plan sets out a range of measures to increase income and deliver savings over the next 1 – 2 years and will include any recommendations from the Chartered Institute of Public Finances & Accounting (CIPFA), who have been appointed to undertake a Health Check of the HRA.

This report seeks to outline the immediate requirements for the HRA, however, it is important to note from the outset that there are multiple stages required to ascertain the full needs of the HRA moving forward

Looking ahead, further significant additional capital investment will be required over the medium and longer term to remain compliant and meet the investment requirements identified in the Stock Condition Survey. Savills have been appointed to provide specialist business and financial advice and to review longer term options for the effective management and maintenance of the housing stock. This is to ensure the Council provides safe, high-quality, and regulatory compliant homes for our residents. An update on this work will be provided during the autumn.

The Housing Revenue Account Overview

1. The Housing Revenue Account (HRA) is responsible for all income and expenditure related to the provision of council housing. The HRA is a ringfenced account within the General Fund with strict legal and accounting rules to maintain separation from General Fund expenditure.

2. The HRA consists of capital and revenue elements. Capital is typically physical items that add value to the property such as doors, windows and boilers etc. Revenue is typically low-level repairs, staff and labour costs etc. The Council is allowed to borrow to fund capital expenditure, but not revenue.

3. The following outlines the key budget areas and headline figures for the HRA.

Revenue Budget

- **Income:** The primary sources of income for the HRA are Tenant's rents and service charges. The forecast income is expected to be circa £21m.
- **Repairs and Maintenance**: This includes all major expenditure which falls into the revenue category and includes equipment testing, decoration, minor works and the majority of our responsive repairs work. The budgeted spend is approximately £8m.
- **Supervision & Management:** Administrative and operational costs associated with managing the housing stock. This is budgeted at £9.75m
- **Financing / Debt Servicing**: Financing costs of the existing £84.6m borrowing amounts to an annual cost of £ 2.8m

- **The Capital Programme Budget**

The capital programme is part of the HRA but is recorded separately. The Capital programme provides for investment in major repairs and building upgrades, Right To Buy replacement acquisitions etc.

The Capital programme for the current year amounts to £13.2m, reducing to a net figure of £9.2m with grant funding, Right To Buy receipts and a '*depreciation*' contribution from the revenue account. The capital programme includes an amount of £6.44m for major repairs, improvements and compliance works.

(Depreciation: An amount set aside from income to invest toward capital works to maintain an asset i.e. for wear and tear)

HRA – Key Financial Pressures

4. The financial pressures facing the HRA have arisen due to a number of factors:

- **Historic Under-investment**
  As members will be aware, a significant portion of the Council's housing stock is old and requires extensive and costly repair, maintenance and fabric upgrades. This includes meeting new standards for energy efficiency

and safety regulations to meet increased regulatory compliance standards. A lack of cyclical and planned maintenance appears to have contributed to general deterioration in our stock. This historic underinvestment may have exacerbated current repair costs in certain cases.

- **Void Rates**
  Void turnaround times have a significant impact on revenue and the Council has experienced higher than average void times. The Council also has a significant number of long-term voids and properties requiring significant investment to be brough back into use. Underinvestment in our stock has, in some cases, resulted in voids requiring additional works once they have become void. This in turn has led to increased void turnaround times.

- **Inflation and Cost Increases**
  General inflation and specific increases in construction and maintenance costs and materials and labour have made it more expensive to maintain and improve our housing stock**.** We are working with our contractors (Ian Williams in particular) to find cost savings across our portfolio through negotiation of different contractual terms and furthermore through efficient planning and issue of planned works.

- **Debt Levels**
  The HRA carries £86.4m of debt from self-financing. Servicing this debt requires significant annual expenditure of approximately £2.6m p.a. Interest rate increases in recent years will affect the cost of new borrowing.

HRA Internal Financial Review 2024

5. Following an internal review by the new senior housing team in early 2024, it became clear that the HRA was facing significant financial pressure. The key issues facing the HRA have arisen from an apparent underinvestment in both cyclical and planned maintenance. More recently, higher regulatory and consumer standards have placed further cost pressures on the budget along with cost price inflation and the impact of covid on our ability to undertake certain works.

2023/24 Budget Outturn Overview

6. The final HRA outturn for 2023/24 shows a significant budget overspend in both Capital and Revenue. The Revenue budget was overspent by £7.1m, the Capital Programme budget was overspent by £5.1m.

7. The key areas of major overspend were Responsive Repairs, Programmed Maintenance and Supervision and Management. The Budget outturn positions are included at Appendix 1

Reserve Position

8. The opening Reserve position for last financial year (2023/24) showed £12.47m in reserves. This consisted of £9.37m in useable reserves, and £3.1m in the HRA Balance Reserve. The Balance Reserve is considered to be the minimum operational reserve for unexpected shocks and is set at a level considered prudent by the s.151 officer to maintain solvency.

Table 1: HRA Reserve Position

Reserve Name	22/23 Year End Balance (£m)	Reserves Used in 23/24 (£m)	23/24 Year End Balance (£m)
HRA Balance Reserve	3.1	0	3.1
HRA Volatility Reserve	1.6	1.6	0
Capital Development Fund	2.925	2.925	0
Landlord Services Reserve	0.124	0.124	0
Planned Maintenance Reserve	3.255	3.255	0
Fire Risk Assessment Reserve	1.468	1.468	0
	12.472	**9.372**	**3.1**

9. The entire useable reserve of £9.37m has been allocated to fund the revenue budget overspend as well as financing the capital programme expenditure.

Additional Borrowing Required

10. As highlighted above, the final outturn position for 2023/24 resulted in an HRA capital shortfall of £2.5m. This necessitates an additional new borrowing requirement. This additional £2.5m of borrowing, at indicative current rates of 5%, will add an additional £130k per annum to the interest burden i.e. a bottom line revenue expenditure/pressure on the revenue account.

Revised Budget 2024/25

11. The current year's budget 2024/25 was set as part of the annual budget setting process and was approved by Council alongside the General Fund Budget. This is published in the Council's Budget Book. A copy of the approved 2024/25 budget is shown alongside the proposed revised budget for 2024/25 at Appendix 3.

Revenue Budget

12. The full scale of the financial challenges facing the HRA became apparent early in 2024, with the full extent being established at the end of the financial year in April of this year.

13. The extent of cost pressures, budget overspends, and backlog repairs were not reflected in the budget for 2024/25. Members were advised in the budget setting report that the budget would be a rollover from the previous year. This was because we needed to establish the costs for new and existing vacant posts, were awaiting details from the stock condition survey and other spend priorities.

14. Budget pressures have not abated and forecasting clearly suggests that the current Revenue budget is insufficient and is likely to be significantly overspent in the current year. The budget also failed to provide sufficient resources for capital programme investment. For this reason, a revised budget has been prepared that more accurately reflects the forecast outturn and includes additional borrowing to provide sufficient capital investment to achieve regulatory compliance.

15. The revised budget provides for an increase in revenue expenditure for responsive repairs, maintenance and compliance works. There has been adjustment to how certain expenditure is accounted for in terms of Revenue or Capital, with a significant proportion of expenditure previously shown in the revenue budget now being shown in the capital programme. This is purely an accounting change and improves the way the HRA is structured to enable better understanding, management, and financing.

16. The forecast outturn position arising from the new budget amounts to a revenue budget shortfall of £1.34m. This figure includes the additional financing cost of the £2.5m new borrowing required to meet the 2023/24 budget shortfall.

17. The revenue budget shortfall in the current year is forecast to increase from £1.34m to approximately £1.71m allowing for the finance costs of £7.3m of additional borrowing required to fund the essential capital programme, as detailed below.

18. It is proposed, and included in the report recommendation, that the forecast revenue budget shortfall for the current year be met from an allocation of up to £1.75m from the £3.1m HRA Balance Reserve.

19. In summary, the HRA is facing a revenue budget shortfall of £1.71m and requires £7.4m of capital investment. The recommendation in this report is to fund the revenue element from reserves, and the capital element from new additional borrowing.

20. As stated, the HRA Balance Reserve currently stands at £3.1m, at its adopted level. The Balance is held to protect the Council against the risk of costs associated with unforeseen events along with appropriate insurance and to deal with uneven cash flows. The sum to be held is a recommendation to Council from the S151 Officer. There is no set formula in determining the appropriate level of the Balance, but a common approach is to allow a sum per property.

21. In our case this is £490 per property giving £2.1m as the minimum sum to hold with headroom added of £1m giving our £3.1m at the top of the range. This report recommends using up to £1.75m of the Balance in the current year to meet

revenue costs bringing the estimated HRA Balance Reserve down to £1.35m, this being £0.75m below the minimum level.

22. Under normal circumstance this would not be a position the S151 Officer would support, but having reviewed options and the need for the authority to meet compliance standards within its housing stock, this is seen as acceptable on the understanding that realistic budgets have now been reflected for the 2024/25 revised budget position and steps are to be taken to rebuild the reserve which will need careful monitoring by the Council.

23. A copy of the proposed revised budget for the current year 2024/25 is included at Appendix 3.

Capital Budget

24. The capital programme consists of several areas of essential spend to ensure our housing stock complies with various regulatory standards such as fire, gas and electrical safety etc, and that our homes are of a decent standard. This includes tackling damp and mould, urgent structural repairs, fire safety works and a general requirement to ensure that kitchens and bathrooms meet an acceptable minimum standard.

25. A significant programme of investment is now required to meet regulatory standards. The following table provides a headline summary of the programme of investment required in the current year. This requires a total investment of £6.44m.

Table 2: Forecast Capital Programme 2024/25

Expenditure	**Units/ Measures**	**Cost - £**
Kitchens	100	750,000
Bathrooms	50	200,000
Roofs: Condition D (Risk of imminent failure)	6	132,000
Windows	24	150,000
Heating/ Boilers	100	500,000
Capital Major Works See Separate List		1,210,000
Decarbonisation Programme (Lad Mop Up).	35	750,000
Adaptations		400,000
Sew Treatment Plants	14	500,000
Fire Doors	300	450,000
CO2 & Detection	2700	400,000
Fire Risk Assessment Actions - Capital	0	1,000,000
		£ 6,442,000

26. In addition to the £6.44 m of planned works, the Capital Programme also includes capital expenditure on Voids, Responsive Repairs and RTB replacement

acquisitions. The total Capital Programme Budget amounts to £13.262m as summarised in the table below

Table 3: Proposed Capital Programme Budget 2024/25

Capital Programme Budget 2024/25	
Major repairs	£6.44m
RTB Replacement Acquisitions	£3.32m
Voids	£2.5m
Responsive repairs	£1m
Total	£13.26m

27. The £13.26m gross expenditure is offset by various income such as grant funding, RTB receipts and a depreciation contribution from the revenue account (money set aside from rents to fund major repairs). The **net** expenditure after allowing for this amounts to £9.2m

Table 4: Budget 2024/25 Funding Requirement

	Expenditure (£m)	**Funding Required (£m)**
Revenue Budget	20.5	1.71 (forecast overspend)
Capital Expenditure (Gross)	13.3	9.2 (net capital expenditure)
Total Expenditure	**33.8**	
Total Funding Required		**10.91**
HRA Balance Reserve Allocation		-1.71
Balance to be Funded 2024/25		**9.2m**

Additional Funding / New Borrowing

28. The new funding requirement for the current year 24/25 amounts to £9.2m as outlined above. A further amount of £2.5m is also required balance the budget shortfall for 23/24. This takes the total new additional funding required to a total of £11.7m
.
29. It is proposed, and included in the recommendation, that the £11.7m be partially reduced through the use of a one-time contribution of £4.4m of Voluntary Revenue Provision (VRP) funding. This leaves a remaining balance of £7.3m to be funded through additional new borrowing.

30. VRP (Voluntary Revenue Provision) is where the Council has made an overpayment on existing debt, which can then be utilised to offset further borrowing. For example, over previous years we have made additional payments to the HRA to the amount of £4.4m which means that this amount is available for us to borrow this financial year. We are proposing that we utilise this in order to reduce the overall amount we need to borrow.

31. It should be noted that the annual cost to the HRA revenue account from £7.3m of new additional borrowing amounts to approximately £365k per annum**.** This increased cost will place additional revenue pressure on the HRA and will need to be met through a package of efficiency savings across the board, through budget control, a recruitment freeze on non-essential posts, income maximisation and a minimal level of strategic asset disposals.

32. Our calculations assume that monies will be borrowed from the Public Works Loan Board, however the Council Treasury Management Strategy will determine if internal borrowing is more beneficial thereby reducing overall costs.

Home Safeguard – Capital Investment

33. Home Safeguard is a community alarm service provided to residents of our older persons housing stock. The service requires specific hardware to be installed in each property. The existing hardware will shortly become obsolete and requires replacement across the stock, at capital cost of up to £1.2m.

34. This cost will require further additional borrowing and will add to the overall total HRA debt burden. It is however proposed that the capital investment cost be offset by an appropriate service charge in 2025/26 and future years. Service charging will cover the capital and borrowing costs and will have a net neutral impact on the revenue account. Details of the Home Safeguard scheme and associated capital requirement will be set out for approval in a subsequent report.

Social Housing Decarbonation Fund – Round 3 Bid

35. As members will be aware, we have been committed to decarbonising our stock and EDDC have previously applied for available funding. Unfortunately, due to the match funding element and budgetary constraints as outlined, it has been necessary to decline the latest round of funding. This does not mean that we will not apply for future funding however; it simply means that with a more robust, thorough and planned programme of works we can ensure that funding applications not only help improve home efficiency for our customers, but will also ensure that our most ‘in need’ stock is targeted with appropriate decarbonisation measures.

Future HRA Business Plan

Budget 2025/26

36. Detailed budget preparation for next year's budget will commence in September. This will link with work being undertaken by Savills to review and assist with our short-term financial plan and options for the longer-term management of the stock.

37. The 25/26 Budget will need to achieve the following.

- A significant reduction in revenue expenditure in the range of 10 %
- A target revenue contribution of £250k to replenish the HRA Balance Reserve
- A significant capital programme of circa £12m for continued capital investment.
- Capital receipts from the disposal of non-performing assets to assist funding of the Capital Programme.

38. The required budget reductions and efficiency savings amount to an estimated £2.415m, although this is an early calculation and is highly likely to change. This has been calculated based on a requirement to reduce forecast budget overspends and cover the interest payment on new borrowing. This is summarised below.

Table 5: Indicative Revenue Savings Required

Indicative Revenue Savings Required	**Cost / Saving Required**
Revenue Budget Overspend 24/25 – To be reduced to 0 in 25/26	£1.3m
Replenish HRA Balance over 3 years	£250k
Revenue costs for £7.4m, additional borrowing 2024/25	£365k
Revenue costs for an estimated £10.m additional borrowing 2025/26	£500k
Total	**£2.415m**

HRA - Short Term Sustainability Plan

39. Immediate action is necessary to stabilise the financial position of the HRA whilst work is undertaken to establish longer term options for the effective management and maintenance of the housing stock.

40. A short term 'Sustainability Plan' has been adopted and will ensure strategic management, prudential investment, budget control and will deliver a programme of income maximisation and cost reduction. This plan includes the following.

Strategic Review of Expenditure

41. A mini budget review has taken place in the current year with a number of cost savings identified in the existing budget, this has included a decision to not recruit to a limited number of posts and small savings in areas of non-essential spend.

42. A further, more detailed exercise, including industry benchmarking, will be required prior to the 2025/26 budget setting process to identify opportunities where significant cost savings can be achieved, without compromising service quality. This may include renegotiating contracts, improving operational efficiencies, adopting new technologies and approaches to service delivery.

Income Maximisation / Diversification

43. Maximising income will be a key priority in future years. This may include marginal rent increases above standard through a programme of 'rent flexibility' and the introduction of 'affordable rents' on a small number of Council properties. It will also include ensuring the effective management of service charging to ensure that costs are adequately recharged to tenants, leaseholders and freeholders where appropriate, including for sewage treatment plants etc

44. It will also be necessary to explore other opportunities to diversify income streams. This could include developing mixed-use properties, commercial leasing, or partnerships with private developers or service operators to generate additional revenue.

45. We will also continue to explore grant funding opportunities.

46. Enhanced Financial Planning & Budget Control

47. The recent internal Financial Review has identified a number of areas for improvement in the monitoring and management of the HRA budget. Following further reporting from CIPFA, Housing and Finance Departments will need to implement more robust financial planning and forecasting to better manage cash flows and anticipate future financial needs. Strict budget controls should also be adopted, which could include a moratorium on recruitment to non-essential posts authorised by ELT. Furthermore, additional training must be given to all managers with budget holding responsibility, and awareness of cost saving approaches to be employed across all areas of the Housing Department.

48. Historically, EDDC have completed works that do not fall under legal responsibility as social landlord which has resulted in increased costs and impact on the HRA. In order to improve budgetary spend and improve efficiencies, additional support from corporate communications is needed to communicate and outline appropriate responsibility of repair to tenants.

Effective Asset Management

49. Effective asset management is a core activity for housing providers. This involves having a clear understanding of the value and investment requirements of the stock, and disposing of assets which don't perform against a set criteria. This

criteria is primarily financial, but also includes social value i.e. we may opt to retain an asset where it fails the financial test but meets a particular social or priority need.

50. Asset disposals are typically properties that are uneconomic to maintain and where the cost of repairs exceed the value of the asset. This assessment is typically undertaken through a formal valuation approach termed Net Present Value or NPV. A formal 'Acquisitions and Disposals Policy' will be presented to Members for approval in the autumn and will provide the framework for any disposals.

<u>Advocate for Policy Change</u>

51. The financial pressures facing the HRA are not unique to EDDC. Many stock holding authorities are experiencing similar pressures. This is partially due to the imposition of higher consumer and regulatory standards and net zero aspirations, but with limited additional investment to meet these increased cost burdens. EDDC should engage with policymakers at a national level to advocate for additional funding and greater flexibility in HRA financing.

<u>Debt Restructuring</u>

52. Evaluate the possibility of restructuring existing debt to achieve more favourable terms, reducing annual debt servicing costs and freeing up resources for other priorities.

<u>Community Engagement</u>

53. We will continue to engage with our tenants and seek their input on our plans for improving the housing stock and how resources are allocated. Community engagement is a top priority to ensure that we listen and understand our tenants, needs, views and priorities and that these are reflected in our plans and decisions.

54. We have listened to the responses given within the Tenant Survey and there has been a consistent level of dissatisfaction with EDDC repairs service for some time. Whilst figures have improved in the latest round of surveys, we have to consider how we keep tenants informed and engaged in their housing service; help them to understand their rights; make reporting repairs an easy and technologically advanced service and ensure that we provide prompt and accurate updates on the progress of works at their homes. This approach will require sufficient support from the Communications Department and other colleagues throughout EDDC

HRA Business Plan & Options Review

55. The financial pressures facing the HRA are immediate but also likely to extend over the medium and longer term. As highlighted, the major cost pressure is the investment required to bring the stock up to a decent standard. This will require a long-term business plan, typically a 30-year plan.

56. The level of investment has yet to be determined and will follow from the recent Stock Condition Survey. The indicative 5-year Capital Programme investment requirement is estimated at approximately £60m with a longer-term investment requirement beyond 5 years expected to be in excess of £100m. These are initial estimates at this stage.

57. This level of expenditure can be met, in part, through a contribution from the revenue account to the Capital Programme, i.e. through rental income. The HRA is however likely to require additional borrowing in future years to provide the required additional capital.

58. The Council have recently engaged Savills to assist with a short-term financial plan and to provide high level advice on the options available to the Council for the most efficient and effective long-term management and investment in our stock.

59. The absolute priority for the Council must be our tenants, and to meet our obligation to provide safe, warm and decent homes which meet the required regulatory standards. All options should therefore be considered in order to achieve this. A full and thorough options appraisal will need to be completed within which there are many options for consideration, namely; a continued programme of income maximisation, effective asset management, cost reductions and efficiencies, partnering arrangements, shared services or the transfer of stock to a new or existing registered provider.

60. The headline review being undertaken by Savills will guide further work in this area and assist the Council in establishing a sustainable medium and longer-term strategy. An update report will be provided in the autumn.

Continuing Service Improvement

61. Whilst we are responding to certain financial pressures, the Housing Service remains committed to a programme of continuous service improvement. Housing are pleased to report the following excellent performance results on rent collection and significant improvements in our repairs and voids performance.

<u>Repairs (Ian Williams(IWS))</u>

- In the last six months we have reduced our outstanding Work In Progress data (WIP) from 1500 jobs to circa 830 (as of 27th June 2024). This has been done by careful management of more complex work and improve triage at first point of contact
- We have significantly reduced the number of open damp and mould jobs (24 as of 27th June 2024) by better triage, faster inspection by Surveyors and proactive advice.
- We are exploring humidity monitoring and damp and mould treatment kits this year to help with DMC issues.
- 97% of emergencies have been completed within target
- 95% of responsive repairs have been completed within target
- We have carried out a whole data reconciliation exercise to align our data and are bringing EDDC and IWS IT teams together for the first time in 5 years to look at interface issues

- Customer satisfaction with IWS is over 90% on responsive repairs
- Average time to complete a responsive repair is 11 days against a target of 28 days

Voids

- We have identified 30 homes where major work is required and are putting together a plan to tackle these including the use of external grant funding
- We have streamlined our void processes and reporting mechanisms to ensure long term or strategic voids do not impact on turnaround data for 'general' voids
- We have weekly multi- agency progress meetings chaired by our new Void Manager
- We have now built better links with Liberty Gas who also hold an important part in the void process and are working with them to reduce the time they are in the void
- We are working with IWS to iron out inclusions and exclusions on the price per void delivery model with further meetings taking place next week to identify opportunities for efficiencies
- Pre inspections started taking place with the customer in situ during June which should further reduce our turnaround times with specs and contractors lined up to deliver on day one of the void

Income Collection

- Income collection is currently at 99.18%, which is above target, and on track (target is 98%, and we are only 1% below the top quartile - last year our final income collection figure was 100.46%). This level of income collection means we are maximising our tenanted assets and strengthening our budget based on rental income. This, coupled with the improvement in Void times, should see a further increase in the HRA income generation this year.

Financial Challenges – Implications & Risks

62. The council has a clear duty as a responsible landlord to ensure adequate investment in the housing stock. The current financial challenges have a number of implications and risks including.

Implications

- **Regulatory Compliance**: This requires all housing to meet certain standards and for the testing, servicing, repair and replacement of equipment including gas, electricity and fire safety equipment. Failure to meet these standards would result in the intervention by the Regulator of Social Housing.

- **Tenant Satisfaction**: inadequate maintenance increases dissatisfaction among tenants, affecting community relations and increasing administrative burdens in terms of complaint handling.

- **Service Quality**: Inability to maintain or improve housing stock can lead to deteriorating living conditions for tenants, including conditions such as damp and mould which have serious health and safety implications.

Risks

- **Rent Increase.** The expected rent increase for 2025/26 is calculated as CPI plus 1%. This is anticipated to amount to 3%. This formula can be factored into our short and medium term plans. However, any change in central government policy that sought to restrict or reduce rent increases, could have a significant impact on our overall income.

- **Cost inflation.** Current trends indicate a significant easing of inflationary pressure across the board. However, inflation can be affected by unforeseen global shock or events. A significant increase in materials and labour costs, without a corresponding increase in rental income, would have a significant impact on the Councils financial ability to maintain the stock.

- **Increased Regulatory Standards / Policy change.** Increasing consumer and regulatory standards have placed additional cost burdens on the Council. We believe that most of these pressures are understood and reflected within our plans. However, there is a risk that further changes to standards or obligations could place additional pressure on the HRA finances.

- **Disrepair claims.** A significant rise in claim for disrepair is a significant risk. The ability to claim compensation has been widely publicised on social media and elsewhere with some compensation firms cold calling and door knocking. A rise in claims is anticipated and is considered to be a medium to high risk.

- **Capital / Revenue Split miscalculation.** Responsive repairs budget has been estimated as £4m with 25% estimated to be capital. £3m therefore appears in the revenue budget and £1m in the capital budget. Should the position change and less than 25% be delivered as capital and instead be delivered as revenue, this may result in a revenue budget overspend. This risk is considered low to medium.

Question & Answer

Q: How will the budget pressures affect our ability to meet our climate change objectives?

A: A significant proportion of the proposed investment is to improve the fabric of our buildings and improve thermal efficiency. The programme also includes boiler replacements and other measures which contribute toward meeting our Net Zero targets. However, our climate change objectives will continue to be aspirational whilst we are needing to prioritise responsive repairs and compliance works within a restrictive budget.

Q: What happens if a provider doesn't meet regulatory compliance?

A: The Regulator of Social Housing would be alerted and would conduct an investigation. Upon conclusion, they would issue a Regulatory Judgment which would then be published outlining the standards that were not met by the provider. The Regulator considers compliance within the areas of Governance, Financial Viability and Consumer Standards. Depending on the severity of the judgement, different steps would be put in place; this could be creating an action plan to address key issues, the downgrading of performance standards and/ or remedial action by way of formal interventions.

Q Will rents have to rise to pay for additional investment in the stock?

A: There are no plans to increase rents for our existing tenants above the standard annual rent increases which are calculated with reference to a government formula and introduced in April each year. We will review options for 'flexible' or 'affordable rents' for some new tenancies. This is common practice amongst Registered Providers and will be an important source of additional income in future years. Any proposed change will be subject to Member approval.

Q Will we also be reviewing service charges.

A: A review of service charges will be completed during this financial year to ensure costs are being appropriately recharged. A working group, including tenants will be formed to consider the approach taken within this, and a full communications and consultation process will be undertaken to ensure that we provide financial inclusion support to those tenants who may find the introduction of service charges financially challenging.

Q: Why was the revenue budget overspent by £6.3m in 2023/24 but only forecast to be overspent by £1.5 m in 2024/25?

A: A review has identified that some capital expenditure was included in the Revenue budget. This type of expenditure now appears in the 24/25 Capital Programme, the cost of which will be met by the proposed borrowing.

Q: What will the new borrowing be spent on?

A: Our programme of investment will ensure our homes are safe and of a decent standard. Our programme will include compliance works such as testing and replacing fire safety equipment and resolving outstanding fuel poverty issues, major structural repairs and other such actions.

Q - Are the Council considering selling the Housing Stock?

A : Whilst this may be a potential option, Officers have no immediate recommendation for selling our stock. The Council have appointed Savills to review our financial position and establish options for the longer-term management of the Housing stock. This options appraisal may include delivering efficiency savings, partnering, shared services, disposing of poorly performing assets or stock transfer. However, it is important to stress that **all** possible options will be considered as part of due diligence and a further report will be provided during the autumn.

Q: Will budget pressure affect our ability to build new affordable homes on our garage sites?

A: The Housing Task Force are continuing to progress multiple sites across the district. If the income from rents and grant funding covers the development and borrowing costs, development will proceed. Building new homes will not divert resources from improving the existing stock.

Q: How much debt does the HRA have, and how will we repay additional borrowing?

The Council borrowed around £86m under self-financing arrangements. This, and any new borrowing, is paid back from annual rental income. The current annual repayment is approximately £2.6m p.a. or around 13% of our income.

Q: What improvement have been made to budgetary management?

A: The new management team have identified a number of areas for improvement in budget setting, financial management and budgetary control. The Council has also commissioned Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake review our budget management and accountancy practices. The outcome of this will be reported to Members in due course.

Q Are we disposing of any assets?

A: Potentially. Disposing of non-performing assets is standard practice amongst registered providers and is routinely carried out as a matter of good asset management. This process allows for capital receipts from poorly performing assets to be re-invested into our stock and toward the development or acquisition of new homes. An options appraisal will be undertaken for each potential disposal

Q. Will staff be affected by the budget pressures?

A: We are not currently anticipating a planned reduction in staff numbers. A reduction in staff costs will be sought but it is anticipated that any reductions will be achieved through natural wastage, i.e not recruiting to non-essential vacant posts. Longer term options will be reported in due course.

Q: Are we tackling damp and mould and other hazards?

A: Damp and mould is one of the key areas for investment, alongside other areas of compliance such as fire, gas and electrical safety. The revised budget has been developed to ensure we address these issues and maintain regulatory compliance.

Q: Can saving be made to the revenue budget in the current year 2024/25?

A: Budget savings will require a detailed ‘Zero Budget ‘exercise which is a lengthy process. This is scheduled for later in the year with savings applied to future budgets. In the meantime, a new system of budgetary control has been introduced, alongside a number of process and system changes. It is anticipated that these will assist in controlling the budget and avoid overspending the revised budget.

Q; Are the budget pressures affecting our tenants?

A: Our stock has experienced underinvestment in previous years but the revised budget and capital programme aim to address a backlog of major repairs issues. We are also achieving significant improvements in the delivery of tenant services such as responsive repairs.

Financial implications:

The financial details and implications are set out within the report. There are significant financial risks identified; the reduction in the HRA Balance to below the adopted level, the significant savings that are required from the HRA in 2025/26 going forwards, a reduction in the order of 10% of the gross budget, and an increase in borrowing. The implications in borrowing will have to be updated and reflected in the Council prudential indicators. Because of the level of savings required close monitoring and reporting on progress will be required to give Council assurance.

As stated in the report this addresses immediate concerns, but further reports will be presented on the longer implications and options in managing the HRA.

Legal implications:

The legal implications of being unable to maintain our housing stock to the required level are outlined in the body of the report, including the risk of regulator intervention and a potential increase in disrepair cases which can generate significant costs and mean that tenants are living in substandard properties. Local authority housing revenue accounts operate within a framework that considers both reserves and balances. While there isn't a universally applicable minimum level of reserves, authorities should maintain general reserves appropriate for the risks they face. The S151 Officer has advised that it is not appropriate to lower our minimum levels, so the reserves will need to be built back up to the adopted level over a period of time. It is important therefore that Members receive regular reports (as is proposed) as to the progress that is being made and that due regard is taken to the advice of the S151 Officer.

Legal services will continue to offer advice and support as needed whilst options for the future are considered and brought to members.

Appendix 1: HRA Outturn Summary - 2023/24

HRA Outturn Summary - 2023/24			
INCOME	**Actuals**	**Budget**	**Diff**
Gross Property Rents	-19,498,769	-19,911,900	**413,131**
Garage Rents	-209,149	-231,110	**21,961**
Other Income	-686,427	-658,510	-27,917
	-20,394,346	-20,801,520	**407,174**
EXPENDITURE			
Repairs & Maintenance	11,097,257	5,763,318	**5,333,939**
Supervision And Management	9,513,737	8,123,651	**1,390,086**
Other Expenditure	645,236	617,240	**27,996**
Capital Charges & Bad Debt	3,854,726	3,356,710	498,016
(excl Depreciation)	25,110,957	17,860,919	**7,250,038**
FINANCING			
Net Interest Expense	2,030,001	2,559,580	**-529,579**
Earmarked Reserve Release	-9,370,133	-40,000	**-9,330,133**
Revenue Contribution to Capital Financing	2,623,521	880,000	**1,743,521**
Total Financing	-4,716,611	3,399,580	**-8,116,191**
	Actuals	Budget	Diff
Surplus/ Deficit	**0**	458,979	-458,979

Appendix 2: Indicative 5 Year Capital Programme

Capital Programme Investment	Measures / Items Completed by Year							Total Est. Cost £
	2024/ 25	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**	**Total**	
Kitchens	100	251	256	200	200	200	1207	9,802,500
Bathrooms	50	150	150	150	150	150	800	3,000,000
Roofs: Condition D	6	6	107	107	107	107	440	9,636,000
Windows	24	65	65	65	65	65	349	2,230,000
Heating/ Boilers	100	280	280	280	280	280	1500	7,000,000
Capital Major Works	NB.1							4,670,000
LAD Mop Up	35	109					144	2,250,000
Adaptations (Major)	NB.2							2,400,000
Sewage- Treat-Plants	14	0	0	0	0	0	14	500,000
Fire Doors	300	600	400	400	400	400	2500	3,900,000
Damp /Mould:CAT1&2	500	500	500	500	500	500	3000	600,000
CO2 & Detection	2700	2700	0	0	0	0	5400	800,000
Fire Risk Actions	NB.3	0	0	0	0	0	0	1,500,000
Total								**£ 59,981,500**

- NB1 – Capital / Major works include major projects such as reroofing large blocks or major structural repairs etc. These are included in the Capital Programme as a single figure but listed separately. A copy of the planned Major Works is available on request.
- NB2 – An amount of £400k pa has been budgeted. The number of adaptions varies but the current programme has 3 significant adaptations to meet the particular needs of households with disabilities etc.
- NB3 – FRA actions are anticipated to be a one-off Capital Programme activity to address any outstanding works.

Appendix 3: Revised Revenue Budget 2024/25

Revised Revenue Budget 2024/25			Proposed Budget 2024/25		
			Existing Budget 2024/25	Revised Budget 2024/25	Variance
1 INCOME	1 Gross Property Rent inc Garages	1 Gross Property Rents	-21,088,320	-21,088,320	0
		2 Garage Rents	-220,150	-155,293	64,857
	2 Other Income	1 Other Income	-738,070	-692,645	45,425
1 INCOME Total			**-22,0346,540**	**-21,936,258**	110,282
2 EXPENDITURE	1 Repairs & Maintenance - General	1 Responsive Maintenance	2,945,390	3,900,000	954,610
		2 Annual Programmed Maintenance	1,520,920	2,027,000	506,080
	2 Repairs & Maintenance - Special	1 Compliance	650,050	1,033,401	383,351
		2 Other Works	710,160	1,018,958	308,798
	3 Supervision & Management		9,303,501	9,745,313	441,812
	4 Other Expenditure	1 Other Exp non-Sewerage	686,070	723,999	37,929
		2 Sewerage	45,740	8,866	-36,874
	5 Capital Charges & Bad Debt	1 Adjustment to Bad Debt Provision			0
		2 Reval Deprn and Impair	950,420	2,028,300	1,077,880
		3 Major Repairs Expenditure	2,800,900		-2,800,900
2 EXPENDITURE Total			**19,613,151**	**20,485,836**	872,686
3 FINANCING	1 Interest on Balances		-458,600	0	458,600
	2 Loan Principal & Interest repayments		2,663,160	2,787,280	124,120
	3 Other	1 Gain on Disposal	-3,161,910	-3,161,910	0
		2 Loss on Disposal	2,001,980	2,001,980	0
		4 Other	-10	0	10
	4 MIRS	1 Rev Gain on Disposal	3,161,910	3,161,910	0
		2 Rev Loss on Disposal	-2,001,980	-2,001,980	0
		3 Rev Rev, Dep & Impair	-950,420	0	950,420
		4 TFR to EARRES	0	0	0
		5 Cont to Capital	1,179,259	0	-1,179,259
		6 Other			0
3 FINANCING Total			**2,433,389**	**2,787,280**	353,891
Grand Total			**0**	**1,336,858**	1,336,859

Appendix 4 - Revised Capital Programme 2024/25

Project	Revised 2024/25
	£
2024/25 RTB Replacement Acquisitions	3,320,310
Sewerage Plants	500,000
Fire Doors	450,000
CO2 & Detection	400,000
FRA Actions	1,000,000
LAD Mop-up	750,000
Social Service Adaptations	400,000
WNDW RENEWAL	150,000
Replacement Bathrooms	200,000
Roofing Renewal	132,000
Replacement Kitchens	750,000
Gas Boiler Replacement	500,000
Capital Major Works	1,210,000
Capitalised Responsive Repairs	1,000,000
PPV Voids	2,500,000
GROSS EXPENDITURE	**13,262,310**
Major Repairs Reserve / Contribution from Revenue	-2,028,300
Local Authority Grant Funding (LAHF)	-600,000
RTB 1-4-1	-975,155
Other Capital Receipts	-468,000
S106 Funding	
Net Expenditure	**-9,190,855**

Appendix 5- Outline of projected timeline (subject to change due to matters beyond our control)

Headline HRA Roadmap

Completed

- HRA – Internal Financial Review
- Capital programme – Internal review.
- CIPFA Appointed for HRA Health check
- 2023 Outturn Budget Review
- 2024 Budget revision exercise

- Savills Appointed for financial plan and longer terms options appraisal.

July

- Revised Budget to Council

August

- Major works / capital programme implementation (Subject to budget approval)

September – November

- HRA update Report to Members – CIPFA Savills, Stock Condition reports etc
- HRA Zero based budget/ Efficiency savings exercise
- Disposals Policy approval
- Income maximisation review
- HRA Capital and Revenue expenditure Benchmarking exercise
- Budget / medium term financial plan formulation

2025

- Efficiency programme implementation
- Income maximisation programme implementation
- Medium term financial plan / Budget approval