

# Report of the Strategic Director of Place, to the meeting of the Executive, to be held on January 31 2023

**AT**

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**Subject: Opening of Housing Revenue Account and Associated Matters**

## **Summary statement:**

The purpose of this report is to set out progress towards opening a Housing Revenue Account (HRA) with effect from April 2023 and to seek approval to the annual rent increase, service charges and level of HRA reserve to be established upon opening.

## **EQUALITY & DIVERSITY:**

The decision to open a HRA is being undertaken as a result of a direction made by the Department for Levelling Up, Housing and Communities (DLUHC). As part of this process, service delivery to tenants will not change and therefore there are no equality / diversity issues related to this element of the decision

The impact of rent and service charge increases has been considered, specifically in relation to the impact on those on low incomes. Rent increases have been set at a rate significantly below the level of inflation and in accordance with government guidance and the sector standard. Support is available for those on low income in the form of housing benefit and current housing management arrangements facilitate access to advice and assistance on debt management and benefit entitlement. Social and affordable housing rents are specifically provided in order to ensure that those on low income can access safe, secure and appropriate housing. As a result of the current cost of living crisis, a range of further support at local and national level is available and this assists to mitigate the impact on low-income households.

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**Portfolio:**  
Regeneration, Planning & Transport  
Healthy People and Places

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**Overview & Scrutiny Area:**  
Regeneration & Environment

## **1. SUMMARY**

- 1.1 At its meeting of November 1 2022, Executive approved the opening of a Housing Revenue Account (HRA) for the financial year 2023-24. In its Autumn Statement of November 2022, the government announced a 7% cap on the rent standard – limiting the level of rent increase social landlords can apply.
- 1.2 This report provides an update as to progress in opening a HRA. It also sets out progress in developing a HRA Business Plan and seeks approval to a 7% rent increase for 2023/24 and an increase to service charges as part of the housing budget setting process, as well as determining the level of reserve to be transferred to the new HRA upon opening.
- 1.3 Under Para 8.7.4 of Part 3E of the Constitution, the report is marked exempt from call-in for the reason that if it is called in the decision may not be confirmed in time to open the HRA by April 1 2023, due to the need to revise the HRA Business Plan, which is required upon start up and which is due to receive Executive approval on March 7.

## **2. BACKGROUND**

- 2.1 The Executive, at its meeting of November 1 2022, approved the opening of a Housing Revenue Account (HRA) in the financial year 2023-24. This was in response to a direction issued by the Department for Levelling Up Housing and Communities (DLUHC) in relation to council's owning more than 200 units of housing. Bradford District presently owns just 406 units out of approximately 34000 social housing units in the Bradford district. The recommendations in this paper only apply to the 406 council-owned units.
- 2.2 HRA is a separate ring-fenced account in which the council carries out a landlord function. It is funded from rents and service charges from council tenants and leaseholders. It pays for the costs of managing the council's housing stock: for example, major repairs, responsive repairs and liaison with tenants. The main legislative features of a HRA are:
  - Credits and Debits are prescribed by statute;
  - The creation of a major repairs reserve is required
  - There is no general discretion to breach the ring-fence;
  - It cannot budget for a deficit; and
  - That all borrowing within the HRA is in line with the CIPFA (the Chartered Institute of Public Finance and Accountancy) Prudential Code.
- 2.3 The landlord function (and therefore HRA) does not fund other elements of the council's housing strategy such as homelessness. Nor can it include the cost of other council services, for example social care or refuse collection, delivered to residents living in council housing stock. The HRA has to be self-financing, balancing expenditure against rental income. The account can budget for a surplus which increases reserves for periods where expenditure is greater than income but ensuring the reserve balance does not fall below zero.

- 2.4 In 2019, the government set a rent policy for social housing that would permit rents to increase by up to Consumer Price Index (CPI) plus 1 percentage point ('CPI+1%') per annum and made clear its intention to leave this policy in place until 2025. However, this assumed CPI would remain at around 2%. Due to a range of factors CPI rose to 10.1% in September 2022 and as such, this would have permitted rent increases from 1 April 2023 of 11.1%. This much higher than expected rate of inflation is already placing considerable pressure on many households, including those living in affordable housing.
- 2.5 As a result, Government undertook consultation on a number of scenarios, based upon a rent cap of 3%, 5% and 7%, to balance the requirements of landlords to meet increasing costs while mitigating the impact on tenants. In the Autumn Statement of November 2022, the Government confirmed a 7% cap on the rent standard for the 2023/24 financial year – limiting the level of rent increase landlords can apply to a level significantly below the rate of inflation. Providers have discretion, up to and including 7% that it may apply. Given the pressures that a below inflation level increase in rents will place on providers, it is expected that the majority of providers will apply the full 7%.
- 2.6 Bradford is in the rare position of opening a new HRA due to government requirements. The date set by government for opening a HRA has placed a unique set of challenges and pressures on Bradford District specifically. The small number of units in ownership (406) means that any significant variances in Right to Buy numbers, void levels or inflation in any element of the relevant supply chain or services, will have a significant impact on the viability of the new HRA.
- 2.7 The council's housing stock and staff were transferred to an independent Housing Trust, Bradford Community Housing Trust (now Incommunities) in 2003. As such, the council no longer retains any housing management staff or expertise. The council therefore procures registered housing providers to undertake the housing management role for its housing stock (Incommunities for general needs stock and Mears (Plexus) in respect of Extra Care). The revenue costs of these contracts are funded from the rental income from the properties and therefore will be incorporated into the HRA. The re-procurement of management services, planned for implementation in 2024/25, are likely to see significant labour and inflationary pressures. It should be noted that this report and its recommendations relates solely to the council's housing stock of 406 units. It does not relate to Incommunities housing stock of circa 21,000 units.
- 2.8 Additionally, the recent tragic death of 2-year-old Awaab Ishak in Rochdale has raised concerns regarding the extent of problems related to damp and mould in both the private rented and social housing sectors nationally. Measures to more effectively address such matters are expected from Government as a result. A range of information has already been requested from providers by the Secretary of State and Social Housing Regulator, relating to the way in which damp and mould issues are identified and addressed. The council's housing stock of 406 units is modern and of high specification. It has been constructed to a high standard and most are provided with effective mechanical ventilation which helps prevent damp and mould. However, in response to this recent tragedy, Government may introduce new measures or service standards within the social housing sector,

regardless of age and condition of housing stock to prevent and address damp and mould and this may have a financial impact on the new HRA.

2.9 Having modelled the impact of inflation on costs, in order to ensure that the new HRA income and expenditure is balanced, it will be necessary to apply the full 7% increase in rents for 2023/24 to these 406 council-owned units. This will result in an average weekly rent increase of £7.51, from £107.28 to £114.79 for a typical council general needs property. Rents in the council's Extra Care scheme will increase by £8.10 from £115.66 to £123.76. Service charges are based on the actual cost of provision and apply to a proportion of tenants, at different levels, depending upon the services provided. The maximum service charge payable by a tenant in general needs housing is £10.27. Service charges in the council's Extra Care accommodation is proposed at £51.39.

2.10 The existing financial model assumes a Right to Buy (RTB) rate of 4 per annum. Any acceleration or increase to this assumption will need to assess if it is still permissible and economically sustainable to have a HRA which is viable. Similarly, a projection on void levels and impact on rental income has been utilised to determine the rent level requirement. Any increase above the levels of rent loss modelled will place further pressure on HRA. As a result of the significant financial risks that will apply to the new HRA, good practice requires that an appropriate reserve is in place in order to mitigate the impact of unforeseen financial impacts. The current Housing Account balance of £503,000 will be essential to mitigating the risk to the viability of HRA. Approval to transferring the balance to HRA will be required

### **3. OTHER CONSIDERATIONS**

3.1 In order to open an HRA, the council will also need to develop a HRA Business Plan. The Business Plan is being developed with assistance from external consultants and sets out the strategic plan for managing and maintaining the council's housing stock. It also details the short to medium term plans and priorities for housing and asset management services and provides a long term (30 year) forecast on stock investment and financial planning. Furthermore, it gives an economically sustainable strategy with which to go forwards, meeting the statutory health and safety requirements, improving the decency of homes, providing more homes and starting the journey towards carbon neutrality. Officers, together with suitably qualified and experienced housing consultants, are presently developing the Business Plan which will be presented for approval by Executive during March 2023.

### **4. FINANCIAL & RESOURCE APPRAISAL**

4.1 The HRA has different accounting policies to the General Fund, a key feature is that there is no requirement to repay debt. The council has financed existing assets through self-financing, no external borrowing has been taken.

4.2 The interest rate which will be used on transfer of debt from the council is 1.63%. This has been determined by using 01/04/22 PWLB minus 1%. The interest charge will be £537k per annum.

- 4.3 As set out above, having modelled the impact of the 7% rent cap on the HRA, it confirms that this is sufficient to provide a balanced HRA upon opening. As a result, it is recommended that the full 7% rent increase is implemented, in order to enable a balanced HRA to be established and to mitigate the risks associated with establishing a new HRA, together with risks of increased RTB's, higher rent loss on voids and potential impact of the government's current focus on damp and mould issues. This will result in an average weekly rent increase of £7.51, from £107.28 to £114.79 for a typical house (Extra care scheme rent increases £8.10 from £115.66 to £123.76).
- 4.4 The table below illustrates a high-level summary of the HRA Financial Model for 23/24

	<b>£'000</b>
Total income	2,544
Total costs	2,007
Net income from services	537
Interest payable	-537
Net income/expenditure before appropriations	0
Net HRA Surplus/Deficit	0
HRA Balance brought forward	503
HRA surplus/(deficit)	0
HRA Balance carried forward	-503

- 4.5 Tenant service charges are specific charges for services that some tenants receive and others do not. The list of charges which are identified separately are set out below. Landlords may not charge more than the actual cost of the service, plus a reasonable management fee. Not all tenants pay service charges. Around 155 pay service charges for housing and 69 for Extra Care Housing. The proposed charges per week are set out below:

<b>Service</b>	<b>Proposed charges for 23/24 Housing</b>	<b>Proposed charges for 23/24 Extra Care</b>
Cleaning	£1.15 - £2.98	
Ground Maintenance	£1.92 - £5.69	
Door Entry	£0.95	
Coms Lighting	£0.20	
Management	£0.35 - £0.45	
Extra Care		£51.39

## **5. RISK MANAGEMENT AND GOVERNANCE ISSUES**

- 5.1 The key risks associated with the opening of HRA are largely related to financial and legal requirements as set out in this report

## **6. LEGAL APPRAISAL**

- 6.1 Although the council does not need to have permission from the Secretary of State to open an HRA, to open an HRA there is a requirement to declare its intention to do so by writing to the Secretary of State. This will be undertaken following the meeting of Executive on January 31. Procurement of housing management services will be carried out in accordance with Contract Standing Orders and Public Contracts Regulations.
- 6.2 Appropriate communications with tenants will be required in order to provide clarity on the implications of establishing a HRA and also to inform tenants of the annual increase in rents and service charges set out above. Officers are currently working to agree the form and content of communications with tenants.

## **7. OTHER IMPLICATIONS**

### **7.1 SUSTAINABILITY IMPLICATIONS**

None as a direct result of this report

### **7.2 GREENHOUSE GAS EMISSIONS IMPACTS**

None as a direct result of this report

### **7.3 COMMUNITY SAFETY IMPLICATIONS**

None as a direct result of this report

### **7.4 HUMAN RIGHTS ACT**

None as a direct result of this report

### **7.5 TRADE UNION**

None

### **7.6 WARD IMPLICATIONS**

None

### **7.7 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)**

None

### **7.8 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE**

None as a direct result of this report

## **7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT**

None as a direct result of this report

## **8. NOT FOR PUBLICATION DOCUMENTS**

None.

## **9. OPTIONS**

- 9.1 The alternative course of action would be to implement a lower rent increase and / or service charge level, both of which would place significant strain on the legal requirement to establish a balanced HRA

## **10. RECOMMENDATIONS**

10.1 That Executive;

- i. Formally approve the establishment of a Housing Revenue Account with effect from April 1 2023.
- ii. Approve a rent increase of 7% - to be applied from 1<sup>st</sup> April 2023 in respect of the council's housing stock of 406 units.
- iii. Approves the transfer of housing reserves of £503k from General Fund to HRA
- iv. Approve the service charges to apply to the council stock of 406 units from April 1 2023 as set out below:
  - a. Extra Care £51.39 per week
  - b. General needs £1.20 - £10.27 per week (dependent upon property type)
- v. Note progress on the development of the draft HRA Business Plan

## **11. APPENDICES**

None

## **12. BACKGROUND DOCUMENTS**

Executive Report dated 1 November 2022 – Housing Revenue Account Review