



## **Report of the Director of Finance to the meeting of Executive to be held on 21 February 2023 and Council 23 February 2023**

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**Subject:**

Housing Revenue Account (HRA) 2023-24

**Summary Statement:**

The report provides Members with details of the HRA Estimates for 2023/24

**EQUALITY & DIVERSITY:**

The budget proposals set out clearly the need for equality to be considered as part of the Budget Strategy. As in previous years full Equality Impact Assessments have been produced for all budget proposals and full consultation with relevant groups has been undertaken. The outcome of consultation will be considered and reported upon before the 2023-24 budget is approved

The HRA plan supports the delivery of Council priorities.

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Director of Finance

**Portfolio:**

**Corporate**

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**Overview & Scrutiny Area:**

**Corporate**

## **1 SUMMARY**

- 1.1 This report proposes the HRA estimates of net revenue expenditure be recommended to Council for approval as the Council's HRA balanced revenue budget for 2023/24.
- 1.2 The Council will be introducing a HRA account from 1<sup>st</sup> April 2023, this 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. There can be no cross subsidy between the HRA and General Fund Revenue Budget. It pays for the costs of managing the Council's housing stock.
- 1.3 A HRA Business Plan is currently being worked on and is expected to be completed by March 2023.

## **2 Background**

- 2.1 The level of inflation has increased significantly and higher inflation will persist into 2023/24. Figures published on 17<sup>th</sup> August showed CPI (Consumer Prices Inflation) at 10.1% and RPI (Retail Prices Inflation) at 12.3% and figures published on 14<sup>th</sup> September shows CPI at 9.9% and RPI unchanged. The latest update from the Bank of England (22 September 2022) expects inflation to peak at 11% in October and then remain above 10% for a few months before starting to reduce.
- 2.2 In response to the significant increase in inflation the Bank of England have implemented a series of increases in interest rates which have seen the rate increase from 1% in May 2022 to 2.25% from 22<sup>nd</sup> September, to 3% in November. There is an expectation further increases will be made over the next few months. These increases have impacted on Public Works Loans Board (PWLB) long term borrowing rates, which have also increased.
- 2.3 Inflation and increasing interest rates clearly have an adverse impact on the HRA as the sole source of funding is rental income. Additionally, there is no scope to cut services if the Council is to maintain services to tenants and ensure the housing stock remains in good condition and is sustainable.
- 2.4 The HRA investment plans are also adversely impacted by inflation and increasing interest rates, this will be assessed Business Plans due to be completed in March 2023.

### **3 OTHER CONSIDERATIONS**

- 3.1 The Local Government and Housing Act 1989 section 76 requires that Councils must ensure that the HRA budget does not allow for the HRA Reserve to become 'overdrawn'.
- 3.2 To ensure this position does not arise a robust approach is taken to assess forecast HRA income and costs. On this basis the recommended 7% rent increase provides a robust and sustainable basis for the HRA and the continued delivery of the Council's housing objectives and this was approved by the Executive on 31 January 2023.
- 3.3 As rent limits are set on an annual basis 'use it or lose it basis' the HRA cannot recover income with higher rent increases in future years. For 2023/24 this is a more critical issue than in previous years owing to the current level of inflation. e. The recommended increase of 7% approved by the Executive on 31 January 2023 is designed to ensure the HRA remains financially sustainable.
- 3.4 If rents are not increased the HRA will become unsustainable and the Council will be unable to achieve the planned expansion in the numbers of homes provided through the HRA.
- 3.5 The HRA Reserve proposed on 1<sup>st</sup> April 2023 needs to be maintained to manage financial risk relating to inflation and the planned growth of the HRA over the next few years.

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

- 4.1 As highlighted below, the operating costs of the HRA consist of two broad categories and the impact of inflation will be different for these areas.
- 4.2 Repairs and maintenance, supervision, management, major repairs allowance and other operating costs - £2.007m.
- 4.3 Inflation will be a significant issue for these costs and whilst the impact should not be as high as CPI, in most cases the HRA will not face direct energy inflation, it will be impacted by other inflation. These areas will be more impacted by the level inflation peaks at and the ongoing level in 2023/24.
- 4.4 The interest rate which will be used on debt transferred 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. For 2023/24 the interest budget will not be impacted by inflation or increasing interest rates. Beyond 2023/24 higher inflation and interest rates will impact on the cost of further capital investment. Transfer of Housing reserve of £503k will be required to support the HRA.
- 4.5 It is recognised that the recommended 2023/24 rent increase will impact on

households at a time of increasing inflation and other costs. The rent increase will generate £160k and result in an average weekly increase between £7.51 - £8.10.

- 4.6 In previous years the Government have provided additional funding for those tenants receiving housing benefit and Universal Credit. The Government has not yet confirmed if benefits will be uplifted for inflation, which would provide a 10% increase. It seems extremely unlikely that the benefit increase will not be at least 5%.
- 4.7 The Councils required rent increase to cover inflation and maintain a balanced HRA. On the basis that the government set a 7% rent cap this would leave a breakeven.
- 4.8 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

- 4.9 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.
- 4.10 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.
- 4.11 The charges per week are set out below:

<b>Service</b>	<b>Proposed charges for 23/24 Extra Care</b>
Extra Care	£51.39

The Executive approved the service charges to apply from 1 April 2023 on the 31 January 2023.

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

5.1 The risk implications are set out in the body of this report.

## **6 LEGAL APPRAISAL**

6.1 The report complies with the Council's statutory obligations and the requirement to follow statutory guidance.

## **7 OTHER IMPLICATIONS**

### **7.1 SUSTAINABILITY IMPLICATIONS**

There are no direct sustainability implications arising from this report, sustainability implications are considered as part of individual capital project appraisals.

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

There are no direct impacts arising from this report

### **7.3 COMMUNITY SAFETY IMPLICATIONS**

There are no direct impacts arising from this report

### **7.4 HUMAN RIGHTS ACT**

None

### **7.5 TRADE UNION**

None

### **7.6 WARD IMPLICATIONS**

None.

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

None

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

None

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

None

## **9 OPTIONS**

None

## **10 RECOMMENDATIONS**

**That the Executive is asked to approve the following recommendations to Council:**

- 10.1 That Rent increase of 7% be applied from 1<sup>st</sup> April 2023 as set out in section 4.7.**
- 10.2 That Transfer of housing reserves of £503k from General Fund to the Housing Revenue Account as set out in section 4.4 be approved.**
- 10.3 That Service charges to apply from April 1 2023 as set out in section 4.11.**

## **11. APPENDICES**

None

## **12. BACKGROUND DOCUMENTS**

None