Manchester City Council
Report for Resolution

Report to:	Resources and Governance Scrutiny Committee – 7 February 2023 Executive – 15 February 2023
Subject:	Housing Revenue Account 2023/24 to 2025/26
Report of:	Strategic Director (Growth & Development) Strategic Director (Neighbourhoods) Deputy Chief Executive and City Treasurer

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Summary

This report presents members with details on the proposed Housing Revenue Account (HRA) budget for 2023/24, an indication of the 2024/25 and 2025/26 budgets, alongside the outlook for the 30-year HRA business plan in light of the budget proposals.

As part of the budget setting process the rent levels also need to be set. Social rents have been subject to annual increases aligned to a national rent policy. Usually this would allow social housing rents to be increased by up to the consumer price index (CPI) plus 1%, meaning that next year's rents would be increased by 11.1%.

The cost-of-living crisis resulted in the Government launching a consultation exercise around the level at which the rent cap should be set at in 2023/24. The government has since advised that the maximum social rent increase will be capped at 7%, with an exception for properties within PFI contracts, where the standard PFI unitary charges are contractually linked to inflation measures.

The report therefore seeks approval to increase rents in line with current Government guidance of restricting rent increases to a maximum of 7% for all properties, except PFI properties, where standard increase of CPI +1% (11.1%) is proposed, also in line with Government policy.

Given the current economic climate, both the cost-of-living pressures faced by tenants and the inflationary impacts of running services within the HRA need to be considered when setting the overall budget including rent levels. Given the impact on tenants of rent increases, a larger support fund for residents in need is proposed.

It is also proposed that the City Council continue with the policy of aligning rents to the formula rent level when properties are re-let.

Recommendations

Scrutiny Committees are invited to review and comment on the proposed HRA Budget.

The Executive is recommended to:

a) Note the forecast 2022/23 HRA outturn as set out in section 4.

b) Approve the 2023/24 HRA budget as presented in Appendix 1 and note the indicative budgets for 2024/25 and 2025/26.
c) Approve the proposed increase to dwelling rents, and delegate the setting of individual property rents, to the Director of Housing Operations and the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Housing and Development and the Executive Member for Finance and Human Resources.
d) Approve the proposal that we continue with the policy of where the 2023/24 rent is not yet at the formula rent level, the rent is revised to the formula rent level when the property is re-let.
e) Note the proposed 2023/24 changes for communal heating charges as detailed in paragraphs 6.11 to 6.21 and approve the change in policy so that charges can be aligned with the Ofgem price cap over the following financial year in a phased approach and adjusted in line with any change to the Ofgem price cap once alignment has been reached thereafter.
f) Approve a proposed £1m support fund to support residents and tenants with increased costs of both rent and heating charges.
g) Approve the proposed 2023/24 Housing Operations revenue budget as detailed in paragraphs 6.33 to 6.38.
h) Approve the proposed increase in garage rental charges as outlined in paragraph 6.42

Wards Affected: Ancoats & Beswick, Charlestown, Cheetham, Crumpsall, Harphurhey, Higher Blackley, Moston, Ardwick, Clayton & Openshaw, Miles Platting & Newton Heath and Piccadilly

Environmental Impact Assessment – the impact of the issues addressed in this report on achieving the zero-carbon target for the city.
As part of developing the HRA capital programme the retrofitting of existing homes to meet zero carbon objectives is at the heart of the programme.

Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
Consideration has been given to how the proposals in the HRA budget could impact on different protected or disadvantaged groups. Where applicable proposals will be subject to completion of an Equality Impact Assessment (EqIA).

Manchester Strategy Outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	A healthy and fit for purpose affordable housing market will support a functioning local and sub regional economy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	Access to appropriate affordable housing and services will support residents to achieve and contribute to the city.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The supply of affordable good quality homes will provide the opportunity for Manchester residents to raise their individual and collective aspirations.
A liveable and low carbon city: a destination of choice to live, visit and work.	The right mix of affordable quality energy efficient housing is needed to support growth and ensure that our growing population can live and work in the City and enjoy a good quality of life.
A connected city: world class infrastructure and connectivity to drive growth	Affordable social housing plays an important part in ensuring that there are neighbourhoods where people will choose to live, and their housing needs and aspirations are met.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

All expenditure and income related to the provision of Council housing must be contained within the Housing Revenue Account which is a ring-fenced fund separate to the Council's General Fund.

The HRA financial plan covers a rolling period of 30 years and considers all rental incomes, Private Finance Initiative (PFI) grants and heating charges, which must be used for the purpose of funding the costs of managing and maintaining HRA assets.

Whilst HRA expenditure can exceed income in any given year, any deficit must be funded from HRA reserves, and the HRA cannot go into deficit overall, meaning that budgets have to be balanced over the medium to long term.

It should be noted that the HRA budget is forecast to remain in surplus in the short term although there is a forecast cumulative deficit of c£17m over the 30-year period. The deficit is a reflection of the fact that the financial model is sensitive to cumulative changes and any relatively small change in year one can have a much larger impact over the life of the business plan. Officers are continuing to look at all budgets in order to ensure that all spending is in line with agreed objectives, and that all spending represents value for money to help ensure a balanced budget over the life of the business plan.

Financial Consequences – Capital

Within the proposed HRA budget a mandatory charge for depreciation is made, and this can be used to either fund capital expenditure or reduce long term borrowing. In the current year's HRA, depreciation is forecast to be c£22m, and the capital programme is forecast to spend c£26m, further details on future capital investment plans and funding requirements in included within the body of the report.

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Background documents (available for public inspection): None

1. Introduction

1.1. The purpose of this report is to update the committee on the factors that have been considered as part of preparing the 2023/24 Housing Revenue Account (HRA) budget. This report sets out the assumptions that have been included in developing the HRA budgets, including the proposed increases to rents and heating charges alongside the proposal to increase the support fund for residents from the £200k in 2022/23 to £1m in 2023/24.

2. Statutory Duties in Determining the HRA Budget Strategy

2.1. The rules governing the operation of the HRA were established pursuant to the Local Government and Housing Act 1989 and provide that:

- The Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a deficit balance.
- The Council is required to keep an HRA in accordance with proper practice. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance over the course of the 30-year business plan.
- The HRA continues to be a ring-fenced account, this means that it must, in general, balance on a year-to-year basis, so that the costs of running the Housing Service, which include debt charges, administration costs, maintenance expenditure and PFI charges must be met from HRA income.

2.2. The ringfencing of the HRA ensures that all the income and expenditure in relation to managing of the council housing stock is separate to the General Fund and that there is no cross subsidy between either fund (tenants and the taxpayer and vice versa).

3. Background

3.1. Since the introduction of Self Financing within the HRA from April 2012 the Council has had to manage its housing stock on a similar basis to other Registered Providers of social housing. This has entailed developing a rolling 30-year business plan and reviewing the use of existing assets and long-term borrowing to ensure that benefits are maximised.

3.2. In developing the 30-year business plan it is essential that the spending reflects the priorities agreed by members, and there is adequate assurance that the plan is robust and based on sound assumptions.

3.3. The HRA business plan seeks to consider all risks and ensures that any investment decisions are affordable and sustainable both in the short and longer term. It should be noted that whilst the business plan covers 30 years, any relatively small changes now can have much larger impacts over the 30 years because of the compounding impact of those changes. Therefore, whilst the business plan is considered over the 30 years, the focus is primarily on the initial 3-to-5-year planning period, where the assumptions and estimates are most accurate. Ultimately the HRA cannot go into deficit so any indication of potential funding shortfall in the medium term will need to be addressed through savings or cost reductions as part of the budget process in order that the statutory requirement can be adhered to.

3.4. In February 2019, the Government released a policy statement on rents for social housing, which included a direction to the Regulator of Social Housing to have regard for the following when setting the rent standard for registered providers of social housing:

From 1 April 2020, registered providers may not increase rents by more than CPI (at September of the previous year) plus one percentage point in any year."

3.5. In summer 2022 the Government undertook a consultation exercise and sought views on whether the rent policy should be amended for 2023/24 due to the current high inflation rates and potential rent increase of 11.1% for all tenants under the previous rent policy. Following the consultation and as part of the Government's Autumn Statement on 17 November 2022, the Chancellor announced that social housing rents will be capped at a maximum 7%, whilst PFI scheme properties remained unaffected, and PFI rents can be increased in line with the original rent policy.

3.6. As with any capping policy, a decision not to increase rents by the maximum amount means that the income forgone is unable to be recovered in future years. This can have a large impact over the 30-year life of the HRA business plan.

3.7. This report sets out the assumptions that have been made as part of the HRA budget preparation. It should be noted that the longer-term budget is based on forecasts and is very sensitive to any changes in assumptions, in particular the level of future years rent increases.

3.8 Total HRA reserves (excluding the Insurance Reserve) are forecast to be around c£97m at the end of the current financial year (2022/23) but are forecast to reduce by c£49m by 2025/26 to around £47m. These reductions reflect the current proposed capital investment of c£103m over the next three years. This includes c£91m of HRA resources, with the balance from external grants and capital receipts, and this will change has more capital proposals are brought forward in later years. The impact of the current high inflationary costs on some contracts has also had an adverse impact on reserves. Reserves can only be used once, so to support further ongoing capital investment over and above the annual budget provision it will require identification of additional external funding, or reduced revenue costs.

3.9 Further details of the phasing of capital investment and the priority investment areas are set out in the capital section (para 6.20-6.27) of this report. The current plan does not include most works required to enable the Council to achieve its zero carbon targets by 2038. The costs of retrofitting council stock today are estimated to be an additional c.£255m or c£16.5k per property. This is the cost over and above the works already planned. This will not be achievable from within the ringfenced HRA without government support and/or changes to the current HRA regulations.

4. Current Year's Budget Position as at Period 9

4.1. The original approved HRA budget forecast that c£13.188m of reserves would be used in year to support the planned capital investment of c£33m. As of December 2022, the HRA is forecasting that expenditure will be £14.940m higher than income, which will need to be funded by the additional use of reserves to that planned. In effect the HRA is forecasting an overspend of £1.752m and the main reasons for in year changes are as follows:

- An increased number of Right to Buys following the pandemic and a higher level than budgeted for void properties (1.96% year to date against the 1% target) has meant that Housing Rents are £0.877m lower than budget. An improvement plan is in place and continues to actively reduce the level of void properties (see para 6.3), and this results in an increase in the number of lettings to residents and ongoing reduction in void rent loss.
- Northwards Housing was brought back into the City Council from July 2021, and savings of c£1.6m have been achieved through a combination of reduced accommodation costs, staffing changes and reduced running costs. The original indicative savings were c£2.4m, but on more detailed examination not all of the savings options have been realisable.
- The repairs and maintenance contract is forecast to overspend by £5.691m, due to an inflationary uplift of £1.36m and increased costs of bringing higher number of void properties back into use. There are also additional disrepair costs of c£0.9m.
- Heating charges – due to the significant increase in energy costs the cost of gas for tenants' properties is forecast to be c£2.176m higher than budget. Whilst tenants heating charges were increased at the start of the year they have not been subjected to any further increases in year, this does contribute to the significant rises proposed as part of the 2023/24 heating charges, when charges are proposed to be realigned to the energy price cap level.
- Private Finance Initiative contractor costs are £0.649m higher than forecast, due to a combination of c£400k agreed contract variations and contractual annual inflationary increases above budget of c£249k.
- The above overspending areas are offset by reduced expenditure of around £7.399m in respect of Revenue Contribution to Capital Outlay (RCCO), due to slippage and delays on several capital investment schemes, including Riverdale maisonettes, installation of Heat Pumps, and the Collyhurst redevelopment. The capital programme slippage is due to a combination of ongoing access refusals and delays in the supply chain.
- A further £0.884m is due to the fact the sprinkler works on PFI properties have now moved into 2023/24.
- Other minor underspends totalling £258k.

5. Budget Strategy 2023/24 - 2025/26

5.1. As part of preparing the HRA financial plan it is important that the plan is regularly updated to reflect the most up to date information and the assumptions around longer-term changes including housing stock numbers, proposed capital investment needs, existing inflation rates and forecast income levels.

5.2. The HRA budget complies with the statutory requirement to be in balance over the three-year budget strategy period, although there is a small deficit over the course of the 30-year business plan. This is due to several factors, including:

- the Government's imposed 1% rent reduction over four years from 2016/17, a change in policy since self-financing was introduced in 2012 and the original business plan was established.
- the ongoing increased capital investment in fire safety prevention works following the impact of the Grenfell Tower fire disaster, and other planned investments
- the current high rates of inflation that are impacting on both revenue and capital costs.

Costs are regularly reviewed in order that efficiencies can be identified to ensure that reserves are kept at a sufficient level to enable risk to be managed and resources to be available to fund future works required.

Current 2023/24 Budget Assumptions

Rental Income

5.3. In previous years Government guidance has allowed Local Authorities to increase rents by a maximum of CPI plus 1%. The CPI rate used is based on the September figure in the preceding year, and as at September 2022 CPI was 10.1% and the proposed rental increase would have been up to 11.1% for all properties. The Government announced as part of the Autumn spending statement that for 2023/24 social housing rents are to be capped at a maximum of 7%, except for PFI properties that can remain in line with the original rent policy and can be increased by CPI +1%, i.e.11.1% annual increase.

5.4. This HRA budget has been prepared on the basis of applying the maximum rent increase, that is 7% rent increase to all tenants, except for PFI properties that will be increased by 11.1% with effect from April 2023. Based on these increases the average weekly rent (based on 52 weeks) will be:

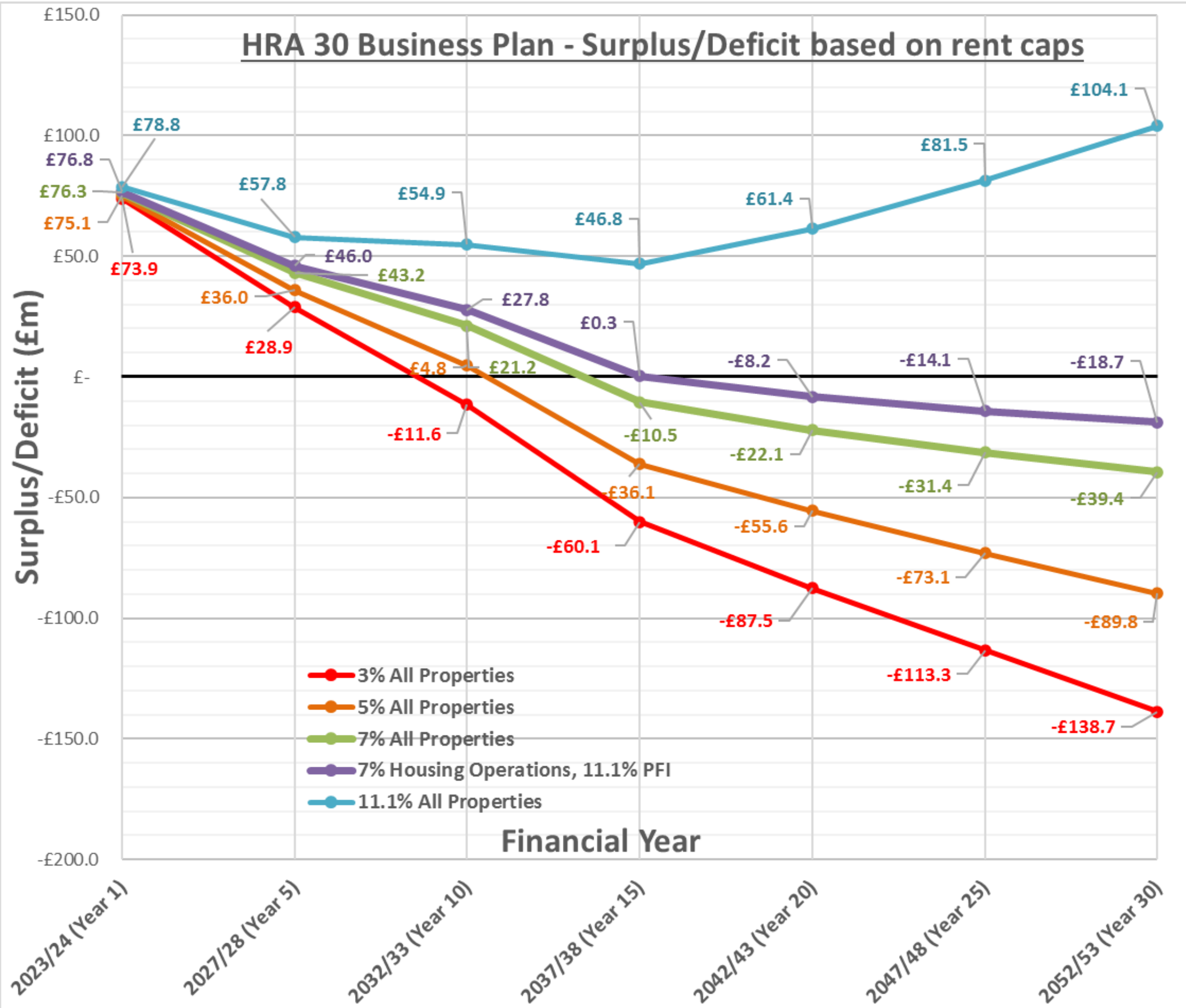
- General Needs £83.88 (£5.49 increase)
- Supported Housing £76.45 (£5.00 increase)
- PFI Managed £101.72 (£9.99 increase)

5.5. Whilst increases of 7% and 11.1% have been applied to social housing rents, the housing benefit levels have not been capped, and the proposed rent increases will be covered in full for those residents in receipt of 100% housing benefit entitlement, and tenants in receipt of universal credit will also be partially protected from the impact of any increase in rents.

5.6. In light of the current economic climate and the potential impact the proposed rent and heating charge increase may have on the most vulnerable tenants it is proposed that the hardship fund is increased from the initial £200k provided in 2022/23 to £1m in 2023/24. This fund will provide targeted support to those most affected by the cost-of-living crisis.

5.7. Whilst the cap on rents is welcomed from a tenant's perspective, there is no cap applied in respect of inflationary impacts on expenditure incurred by the HRA and the 7% increase (11.1% for properties managed under PFI contracts) results in c£2.0m less rental income in 2023/24 and c£78m over the life of the 30-year business plan, which will mean £78m less to invest into the estate over that time.

5.8. The graph below sets out the impact over the life of the business plan of the proposed 7% rent increase for all properties, except PFI properties, where the standard increase of CPI +1% is proposed. This is shown alongside the impact of the other options considered as part of the original Government consultation i.e. 3%, 5%, 7% and 11.1% for all properties. At the end of 30 years the deficit with a 7% increase for all properties and 11.1% increase for PFI properties is c£19m, but if rents for every property were increased by 11.1% the position after 30 years shows a £123m improvement to a c.£104m surplus.



5.9. The chart above shows how sensitive the HRA is to relatively small changes, particularly over the 30-year plan. Whilst the change in rent policy does reduce the rental income by c£2m in 2023/24 the longer-term implications are far more significant. This is due to the cumulative effect of the losses over the 30 years. It is still not known what the rent policy will be for future years, particularly 2024/25 if inflation remains high, but further work is required to be done in order to increase income generation or reduce expenditure to ensure a balanced position in the longer term.

6. Management of Housing Stock and Property Numbers

6.1. The Council continues to own and manage just under c15,000 properties within the HRA under various arrangements. These include in-house management of c12,000 properties, three PFI schemes that include c2,600 properties, and one management arrangement with Peaks and Plains for 11 properties. There is currently an arrangement with an RP to manage c170 properties in West Gorton, but this contract ends as at 31st March 2023 and the management of this stock will transfer to the City Council.

6.2. In the 2022/23 financial year Right to Buy Sales (RTB) have increased following the pandemic, and sales of around 230 properties are forecast in the current year. The number of sales has reduced in recent months and due to the ongoing cost of living crisis and increased interest rates it is forecast that the number of sales will reduce back to pre-pandemic levels. The budget currently assumes 1.25% for the next five years of the Business Plan, before dropping back to 1% for the remaining years of the plan. This will reduce the level of rent income achieved and the number of sales will continue to be closely monitored. The current business plan does not assume that these assets are replaced within the HRA, and as such the stock is forecast to diminish over time unless a strategy of replacement is adopted. Based on current assumptions there will be c11,300 properties at the end of 30 years, if the stock lost through Right to Buys continues at the trend rate and are not replaced.

6.3. As referenced at 4.1 above, void properties are higher than the 1% forecast as part of the original business plan. There has been an improvement on the voids position which have reduced from the December figure of 182 to 161, with 70 of these currently being refurbished. Due to the ongoing work the number of voids continues to reduce, and this is having a positive impact on relet time and void rent loss. For budgeting purposes, it has been assumed it will be at c.1%.

6.4. Bad Debts – A provision of 1% per annum based on rental income has been built into the business plan. This is a small increase on the 0.9% forecast for 2022-23. Given the likely pressure that tenants will be under because of the cost-of-living crisis this will need to be kept under review.

6.5. In 2022/23 MCC introduced the innovative HRA Support fund, allocating £200k to help council tenants to meet the increased demands imposed by higher inflation, energy and grocery costs during the cost-of-living crisis. Manchester was one of the only councils to introduce such a scheme and as at, December 2022 c.£100k has been allocated to support local residents.

6.6. As the cost-of-living crisis continues to significantly impact many of our communities, particularly those on the lowest incomes and most often in social rented properties, the council as part of the new Anti-Poverty Strategy is proposing to increase the support fund to £1m in 2023/24 so that the much-needed financial assistance is available to those most in need.

6.7. The increased support will be available from April 2023 and will provide further help for residents with increased costs of rent and heating charges. The fund is available to all HRA tenants including the council managed stock, and the three PFI arrangements. To aid residents in accessing the funds the current application process for accessing the support fund is being reviewed in order to ensure that funds can be directed more swiftly to residents.

Other Income

6.8. Other income is forecast to be c.£1.974m in 2023/24 and it is assumed that these budgets increase in line with CPI, for 2023/24 8.5% inflation is assumed, which is a slight reduction on current rates of CPI. The other income budgets are made up as follows:

- Non-Dwelling Rents and Other Income includes:
  - Rental income from garage rents, shops, offices, ground rents and telecoms masts - **£393k**
  - Other Income and Contributions – Contributions towards ground maintenance and solar panel income. This includes a one-off receipt of £0.883m in respect of transferring Elizabeth Yarwood Court from the HRA to the City Council general fund. - **£1.158m**
- Recharge to Homelessness **£233k** – rental income in relation to HRA properties used by Homelessness
- Income from Leaseholders (e.g., contribution to heating, cleaning, and repairs to communal areas) - **£112k**
- Investment Income **- £78k** in respect of interest due on balances

Private Finance Initiative Schemes

6.9. The PFI schemes are funded through a combination of PFI credits provided by the Government, and rental income for the PFI properties. Whilst the Government PFI credits are fixed and do not increase each year and so do not reflect any ongoing increases in costs. The PFI contracts are not capped and each of the PFI contracts will increase in line with contractual inflationary increases - for budget purposes the increase is forecast to be 10%. It is therefore recommended that rents for properties managed under a PFI contract are increased by 11.1%, in line with Government guidance. This also reflects the levels of expenditure on the maintenance of these properties under the terms of the contracts.

6.10. PFI schemes are funded through a combination of Government grants and rental income from PFI properties, the indicative budget at Appendix 1 shows that total PFI contractor costs in 2023/24 are c£36.3m, and this is £1.6m higher because of the inflationary increase as part of the contract. The PFI grant support is c£23.3m and this remains constant for the duration of the PFI scheme. The proposed 11.1% rent increase on PFI properties will realise c.£1.1m increased rental income.

Communal Heating

6.11. In general, and over time, it is the intention that heating charges are set to reflect the actual cost of gas consumed. However, there are reasons why in practice this is difficult to achieve:

- Charges are set based on anticipated prices for the following year and consumption from the previous year
- Some of the heating systems are not efficient in operation, although work is ongoing to improve these.

6.12. Communal heating gas is sourced as part of the City Council gas contract, and this was renewed in April 2022. At the time of 2022/23 budget setting an increase of c80% was forecast. In recognition of the uncertainty in gas prices and to provide some protection to residents the 2022/23 costs for district heating schemes were capped at a maximum increase of 20%, this was aligned to the forecast increase in the Ofgem price cap at that time.

6.13. Since the 2022/23 budget was set there has been worldwide turmoil in the energy markets mainly due to the war in Ukraine and this is seen exponential increases in wholesale gas prices. In January 2022 at the time of setting the current years HRA budget, the Ofgem price cap was £1,277, this is in effect the maximum any household can pay for energy costs based in typical usage. Following the Russian invasion of Ukraine in February 2022 and the resulting turmoil in energy markets the Ofgem price cap increased by 54% to a cap of £1,971 in April 2022 and continued to increase in subsequent reviews.

6.14. Despite the significant increase in wholesale gas prices, the price of tenants heating charges has only been subject to the original 20% increase that was approved as part of the 22/23 budget process and there has been no review or change to tenant's heating prices during the current financial year. On average tenants are currently paying c£7.36 per week or £368 per year for heat. This has resulted in a significant under recovery of gas costs through heating charges from residents, and this is forecast to be c.£2.176m in the current financial year. This is unlike most other households who will have been subjected to regular increases in line with the Ofgem price increases In August 2022 the Government introduced the Energy Price Guarantee whilst this is lower than the Ofgem Price Cap and restricts the amount per unit that any households can pay to c£2,500, (based on average usage) this is still almost double the January 2022 price cap. Ofgem are due to issue details of the April price cap on 27 February 2023, although Government have already announced that the Energy price guarantee will increase from the current £2,500 to £3,000 – this is lower than the Ofgem cap and is set to provide the additional support to households in the current turbulent markets.

6.15. Due to the uncertainty in wholesale gas prices, and the continued increase in consumer gas prices throughout 2022, the price caps have had to be increased on a quarterly basis to provide a level of protection to all households, and as at December 2022 the Ofgem price cap was £4,279, this is an in-year increase of 335%.

6.16. Due to the high increases and to provide some level of protection to both suppliers and customers and to enable prices to be changed quicker, rather than every 6 months it was announced in August 2022 that the price cap is to be reviewed quarterly rather than every 6 months. In addition to the price cap and as part of trying to support households with the significant increases in energy costs the government have also introduced a number of schemes designed to support households with the large increase in energy costs, and they include:

- Energy Bill support scheme – this provides households with £400 non repayable discount on their energy bills and is credited to electricity accounts over 6 months Oct – March, if customers are paying by traditional pre-payment meters, then they will receive discount vouchers that need to be redeemed at the post office. This scheme is available to district heating customers, and in instances when it is not available the Government has set up the Energy Bill Support Scheme Alternative Fund.

- The Energy Price guarantee is intended to protect customers from increases by capping the amount that can be charged, it currently stands at £2,500 per annum based on typical usage. The £2,500 cap is to be increased to £3,000 from April 2023 and will last until the end of March 2024. The £3,000 cap includes both gas and electric costs and is the equivalent of £57 per week.

- Winter Fuel payments – pensioners have received an extra one off £300 pensioner cost of living payment, this was paid as an automatic top up to the winter fuel payment.

6.17. There are currently around 2,250 residents on district heating schemes, and they pay for all-inclusive heat either through their rent or through point of sales top up, in addition to the heat charges they will also have electricity bills to pay. As referred to above in the current financial year there has been a shortfall in heating costs of c£2.1m, and in order to ensure no cost subsidy in 2023/24 the costs of heating would need to be increased by c300% for each household. Whilst there is no ideal time to introduce such large increases in costs to tenants, it is also not sustainable to continue subsidising tenants heating costs on going, therefore it is proposed that heating charges are increased by an initial average of £6.04 per week to an average of £13.40 in April 2023. It is proposed that heating charges are then reviewed on a quarterly basis with the aim of balancing the needs of reducing any subsidy to tenants heating bills, but also seeking to reduce the deficit on the HRA. Whilst there continues to be uncertainty, wholesale gas prices have been falling in recent months and the proposed move to quarterly review of prices will allow any price changes to reflect the most up to date position on gas costs.

6.18. Whilst it is acknowledged that the proposed increase is not ideal at any time, not least when other costs are also rising, it is important to recognise that the proposed increases will still leave a deficit on the costs of gas of £1.155m in the HRA in 2023/24 financial year. This will need to be reviewed on a quarterly basis against the costs of gas, and the potential changes to residents' heating charges.

6.19. The proposed charges outlined in Appendix 2 have been calculated using an initial 75% increase with effect from April and this results in an average heating charge of £13.40per week, or £670 per year and this will be reviewed on a quarterly basis with a view to ensuring that heating charges are aligned to the costs of gas.

6.20. In recognition of the increase in both rents and heating charges the support fund available to support tenants most in need has been increased to £1m for 2023/24. Details of how this will be administered are currently being developed, but the scheme will be in place by April to support those most in need.

6.21. As part of the Councils Zero Carbon commitment work is continuing to source additional external funding for works, and there continues to be a programme of capital investment that looks to both improve energy efficiency of homes and reduce carbon. As part of the ongoing investment in energy efficiency measures and to help reduce carbon there is £2m programmed next year to install new boilers or heat pumps, and this will help take over 300 households of the existing district schemes.

Debt Financing and Borrowing Costs

6.22. As part of the introduction of self-financing in 2012, the exercise included a calculation which determined the affordable level of debt for each HRA and a national reallocation of debt was made. As part of the reallocation Manchester received c.£294m leaving a debt balance of c£121m. The 2023/24 opening HRA capital financing requirement is anticipated to remain unchanged at £121.26m, and this is funded through a combination of market loans and internal funding using reserves. Using internal funds means there are no additional interest costs, and the debt does not increase. If the reserves fall below the level of internally funded debt, then new borrowing will be required, and interest charges will increase. The longer-term viability of the HRA is linked to balancing the need for additional borrowing which will incur interest and the priority needs to invest. Future scheme appraisals will need to ensure that the increased costs of borrowing are factored into the project costs where relevant.

6.23. Following the removal of Councils' HRA debt caps, there is no upper limit to the absolute level of debt that can be held, the only restriction being that the HRA business plan must demonstrate that any debt can be serviced without the HRA going into deficit. The HRA debt has remained unchanged since the introduction of self-financing and the business plan assumes this continues into future years, therefore the interest charged to the HRA is only subject to change through interest rate changes.

6.24. The HRA is making provision only for the interest repayments in relation to the outstanding debt. Consideration will need to be given to refinancing the debts as and when the debts become repayable. This will be considered as part of the treasury management strategy.

Capital Investment

6.25. The current approved programme of capital expenditure for the financial years 2023/24- 2025/26 is for approximately £137.4m of spend, of which c.£12.5m will be funded from grants and c. £7.7m from capital receipts. The profile of spend and funding is shown in the table below:

	2022/23	**2023/24**	**2024/25**	**2025/26**	**Total**
	£'m				
Forecast spend	32.4	49.4	44.0	11.6	**137.4**
Funded by:					
Grants	5.5	7.0	0	0	**12.5**
Capital Receipts	0.8	6.9	0	0	**7.7**
RCCO	26.1	35.5	44.0	11.6	**117.2**

6.26. Work is ongoing to review the capital programme to ensure that the programme is both deliverable and affordable whilst aligning with Council priorities. The approved programme does include some schemes that will support the Council in becoming carbon neutral by 2038. The main priorities for 2023/24 include:

- Decent Homes Standards
- Fire Safety
- Damp and Mould
- Decarbonisation

6.27. The costs of reaching zero carbon in all of the housing stock is considerable. Original estimates were that a deep retrofit would cost £25k per unit but this could now be nearer £30k with the recent increases in construction costs. The programme to reach zero carbon needs to be delivered in manageable phases and proposals are being worked up which look at:

- Cease fitting gas boilers in 2023/24
- Retrofitting properties as they become void
- Aligning works with decent homes and asset management works where possible.
- Developing a programme to retrofit a fixed amount of properties per annum to achieve economies of scale and to make sufficient progress on the zero carbon ambitions.

6.28. The Council has bid for £11.6m of Social Housing Decarbonisation Fund grant, with successful bids expected to be announced before the end of the financial year. If successful, a programme of works will be mobilised to combine low carbon investment alongside other capital works.

6.29. Officers are developing the asset management plan and this will inform the future capital programme and investment plan for our housing stock. This will need to address important issues including ensuring decent homes standards are achieved and maintained, and carbon reduction and fuel poverty are addressed. Resident engagement is a key part of developing this programme.

6.30. From 2026/27, a working assumption of a £23m per annum capital programme has been included, which increases annually in line with CPI. Prioritisation of projects will be essential, as investment demand is likely to be significantly higher.

6.31. The HRA capital budget already allows for the costs and implications of the following new build programmes: -

- Silk Street (69 properties) (2023-24)
- Collyhurst (130 properties) (2024-25 and 2025-26)

6.32. The 30-year business plan factors in the income and costs associated with these new properties entering the portfolio once completed.

Operational Housing Costs

6.33. The decision to bring Northwards managed housing back into the Council was approved by the Executive in September 2020, with the business case forecasting annual savings of £2.4m. To date annual savings of c£1.6m have been achieved through a combination of staff savings and savings in accommodation costs following the cessation of the lease at Hexagon Tower.

6.34. Work is ongoing to review the existing delivery models, and this is expected to lead to further savings being identified. However, at this stage there are no further savings identified. The non-achievement of savings largely relates to savings options that have not been taken forward, such as closure of some neighbourhood offices and some identified savings that had already been assumed within the former Northwards budgets to offset pressures.

6.35. Following the integration of Northwards, the council has worked closely with residents, partners and elected members to develop the new vision for the housing service, which incorporates the profound changes through the imminent Social Housing Act, Building Safety Act, Consumer Regulations and the new Tenant Satisfaction Measures, which come into effect from April 2023, as well as the integration with the council.

6.36. The new Place Called Home vision focuses on three key priorities

- Resident led services, putting you at the heart of everything we do
- High Quality housing services and home improvements for secure, warm, sustainable homes
- Welcoming, safe and vibrant neighbourhoods

6.37. The new vision directly informs the ongoing development of the new target operating model for MCC Housing Services (formerly Northwards). The new operating model will focus on delivering to the priorities set out above and will be finalised during 2023/24.

6.38. The 2023/24 costs of operational housing are forecast to be c£14.8m and this is mainly in respect of staffing costs, with some budgets for accommodation costs and supplies and services budgets. The proposed budget includes an increase of £0.780m to allow for forecast pay award costs.

Repairs and Maintenance Contract

6.39. The repairs and maintenance contract was let with effect from March 2021. Following procurement and contract letting the budget was increased by £4.1m to c£11.1m, although this did include some initial one off start up and mobilisation costs. The contract is index linked and for 2022/23 was uplifted for CPI +1% which was 9.9% at that time. Similar indexation will see the contract costs increase to a budget of c£17.5m for 2023/24. Officers are currently in negotiation with the contractor on options to reduce the costs whilst not impacting on service delivery. From 2024/25 a 5% per annum reduction has been built into the budget for the repairs and maintenance service.

6.40. Whilst there is still work to do and performance is not universal, contract performance is improving. Overall, it is an improving picture in terms of service provision although this is not universal. Demand for the repairs services continues to be high, and like many housing providers have experienced a significant increase in damp and mould service requests. The average time to complete a repair is now 10.2 days against a target of 12.5 days and the number of appointments kept is now 95% (target 97%), the compliance aspects of the contract (e.g. fire alarms, gas safety) are all performing to target.

Inflation Assumptions

6.41. The HRA budget includes inflation, most of which in the business plan is linked to the forecast consumer price index (CPI). Based on an assessment of forecasts available, CPI has been estimated to be at around c.8.5% in 2023/24, reducing to c5.25% in 2024/25. The business plan then assumes 2.75% in 2025/26 before reducing back to a 2% CPI rate for the remainder of the plan.

Garage Rents

6.42. Unlike housing rents there is no maximum increase cap on garage rents. It is proposed that 2023/24 garage rents are increased in line with the original rent formula or 11.1%. The impact of the increase is shown in the table below:

	Annual Charge 2022/23	Weekly Charge 2022/23	Proposed Annual Charge 2023/24	Proposed Weekly Charge 2023/24	Proposed Weekly Increase
Site Only	£104.28	£2.01	£115.86	£2.23	£0.22
Prefabricated	£225.08	£4.33	£250.06	£4.81	£0.48
Brick Built	£264.48	£5.09	£293.84	£5.65	£0.56

7. Reserves Forecast

7.1. The overall reserves position is forecast to be c£100m at the start of 2023/24, and around £63m is the general reserve. The table below shows the forecast reserves position over the next three financial years.

Reserve Description	2022/23 (Forecast) £000	2023/24 £000	2024/25 £000	2025/26 £000
General Reserves	63,124	40,316	14,560	13,009
Residual Liabilities Fund	24,000	24,000	24,000	24,000
PFI Reserve	10,000	10,000	10,000	10,000
Total Reserves	**97,124**	**74,316**	**48,560**	**47,009**
Insurance Reserve	2,500	2,500	2,500	2,500

7.2. Based on the latest budget position the forecast reserves position as at the end of March 2023 (excluding the Insurance Reserve) will be c£97.1m. This reduces by c£50m over the next three financial years to around c.£47m by the close of 2025/26 and this is due to the c£103m of HRA resources earmarked to fund the planned capital investment over this period.

7.3. Both the residual liabilities fund and the PFI reserve were set up a number of years ago, and there have been no calls against either reserve, these will be reviewed in 2023/24 to see if any of the funding can now be released.

7.4. Current projections show that the overall reserves go into a negative position at around 2036/37 and are forecast to reach a deficit level of £17m at the end of the 30 years. Work is required to either reduce HRA costs or generate additional income in order to ensure that the HRA is sustainable throughout the life of the business plan.

8. Conclusion

8.1. This report sets out the proposed HRA budget. It seeks to recognise the difficulties faced by tenants in light of the current cost of living crisis, whilst seeking to balance the need to have a balanced HRA business plan.

8.2. The budget proposals will allow for continued service delivery and investment within the existing stock and development of new HRA stock within the confines of the available resources, although there are pressures around meeting the ambition of the climate agenda.

9. Key Polices and Considerations

(a) Equal Opportunities

The rents have been set in line with the Government’s guideline rent.

(b) Risk Management

Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the Housing Revenue Account does not result in a debit balance. The proposed change in rents and identification of savings within this report, together with regular budget monitoring will assist in managing this risk over the short term. Work will continue to ensure that the HRA remains viable in the longer term.

(c) Legal Considerations

The City Solicitor has reviewed this report and is satisfied that any legal considerations have been incorporated within the body of the report.

10. Appendices

Appendix 1 - Housing Revenue Account Budget 2023/24 – 2025/26
Appendix 2 - Proposed Heating Tariffs