Manchester City Council
Report for Resolution

Report to:	Resources and Governance Scrutiny – 7 December 2023
Subject:	Housing Revenue Account 2024/25 to 2026/27
Report of:	Strategic Director (Growth & Development), Strategic Director (Neighbourhoods) and Deputy Chief Executive and City Treasurer

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Summary

This report presents members with an update on the proposed Housing Revenue Account (HRA) budget for 2024/25, it sets out the key assumptions being used in developing the next year's budget and 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 for 2024/25 will need to be approved. Historically Social rents have been subject to annual increases aligned to a national rent policy which allows social housing rents to be increased by up to the consumer price index (CPI) as at September plus 1%, meaning that based on the 6.7% September 2023 CPI rate, next year's rents should be increased by 7.7%.

Whilst the proposed rent increase for 2024/25 is 7.7%, members may recall that in 2023/24 despite CPI being 10.1% the Government imposed a cap on Social Rents at 7%, except for properties within PFI contracts, where the standard PFI unitary charges are contractually linked to inflation measures. In the recent Autumn statement, it was announced that benefits are to increase in line with the September inflationary increase, and there was no indication of any proposed rent cap being applied for 2024/25.

Recommendations

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

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	Consideration has been given to how the proposals in the HRA budget could impact on different protected or disadvantaged groups. Where

Equality Duty and broader equality commitments	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.

As part of the ringfencing arrangement and to maintain long term financial sustainability the HRA sets out a 30-year rolling financial plan 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, maintaining and investing in all HRA assets.

Whilst HRA expenditure can exceed income in any given year, any deficit must be funded from HRA reserves, and not go into deficit overall, meaning that budgets must 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/medium term and whilst there is a forecast cumulative deficit of c£62m over the 30-year period. The deficit reflects 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. There is a statutory responsibility to ensure there is a balanced HRA Business Plan over the 30-year period and further work is being taken to identify actions that will improve the position, noting the sensitivity in projections to small changes in inflation and other assumptions. Officers are continuing to look at all budgets 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 and this will be reflected in the February HRA budget report.

Financial Consequences – Capital

Within the proposed HRA budget a mandatory charge for depreciation is made, which is held in the Major Repairs Reserve, and can only be used to fund capital expenditure or reduce long term borrowing. In the current year's HRA, depreciation is forecast to be c£24m, and the capital programme is forecast to spend c£20m. Further details on future capital investment plans and funding requirements are 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 are being considered as part of preparing the 2024/25 Housing Revenue Account (HRA) budget. This report sets out the assumptions that have been used in developing the HRA budgets, including the proposed increases to rents and heating charges alongside the other assumptions included as part of the budget preparation.

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 are based 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 is responsible for determining a strategy designed to ensure that the HRA is in balance over 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 HRA Self Financing 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. The self-financing model was developed based on rents increasing in line with social rent policy, and this included annual rent increases of CPI plus 1%. However, from 2016 to 2019 the government changed this guidance and introduced four-years of rent reductions of 1% per annum which undermined the original self-financing business case and created additional pressure to balance the 30-year business plan etc.

3.3. In developing the 30-year business plan it is essential that there is adequate assurance that the plan is robust and based on sound assumptions. In recent years there are increased scrutiny and challenges on social landlords due to increased regulation and the Social Housing Act 2023, this provides the Regulator with more powers to act against social landlords and requires actions to be taken in respect of standards, safety and operation of social housing. This is particularly present in respect of both damp and mould, and fire risk assessments which has required additional investment in repairs and maintenance to cover the additional requirements. This is covered in paras 6.37 – 6.41.

3.4. 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. The HRA cannot go into deficit and further work is required to improve the forecast deficit position through savings or cost reductions as part of the budget process in order that the statutory requirement can be adhered to.

3.5. 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."

3.6. This report sets out the assumptions 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.

3.7. Total HRA reserves (excluding the Insurance Reserve) are forecast to be around c£97m at the end of the current financial year (2023/24) but are forecast to reduce by c£48m by 2025/26 to around £50m. These reductions reflect the current proposed capital investment of c£123m over the next three years. This includes c£71m 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.

3.8. Further details of the phasing of capital investment and the priority investment areas are set out in the capital section (para 6.21-6.29) 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£460m, c£30k per property 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 (2023/24) Budget Position as at Period 6

4.1. The original approved HRA budget is a gross c£117m and this included a £35.5m revenue contribution towards the £60.4m capital programme. The HRA is currently forecasting an overspend of £2.879m made up of:

- Higher than forecast costs of repairs and maintenance of £6.331m. This is due to a combination of higher than forecast inflation increases and additional works to address both damp and mould and fire risk assessment works. Included within the overspend are costs of c£1.4m for disrepair claims.
- This is offset by additional interest earned on balances (£0.546m) and reductions in the budget allocated to PFI sprinkler works which are now funded from capital receipts (£2.089m).
- Communal Heating costs are lower than budgeted, but current charges are insufficient to cover costs resulting in a net cost of £0.582m to the HRA, which will need to be recovered over future years. A small increase has been recommended for January, in line with the changes to the Ofgem Price Cap which will help improve the position.
- Higher housing rents of £90k due to a reduced number of right to buy sales. Private Finance Initiative (PFI) contractor costs are forecasted to be £164k less than budget.
- The reduction in the capital programme forecast outturn means that the budgeted £11.88m of revenue contribution to capital outlay (RCCO) is not required. This was to be funded in part from a transfer in of revenue reserves of £22.808m as set out in the original approved budget. This transfer will not be required until 2024/25.

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 deficit over the course of the 30-year business plan, and work is ongoing to ensure the HRA remains in balance. 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.

- New demands to comply with the Social Housing Act 2023, particularly around improved standards, safety and operation of our housing stock.
- the ongoing increased capital investment
- the recent 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 2023 CPI was 6.7%. For 2023/24 social housing rents were capped at a maximum of 7%, except for PFI properties that remained in line with the original rent policy and were increased by CPI +1%, i.e.,11.1% annual increase.

5.4. This HRA budget has been prepared based on applying a CPI plus 1% rent increase, which is 7.7% rent increase to all tenants, with effect from April 2024. Based on these increases the average weekly rent (based on 53 weeks) will be:

- General Needs £90.28 (£6.45 increase)
- Supported Housing £83.24 (£5.89 increase)
- PFI Managed £109.78 (£8.45 increase)

5.5. In line with Manchester's Anti-Poverty Strategy and support for residents during the ongoing cost of living crisis it is proposed that the community living fund is retained for 2024/25, and it is proposed to be set at £300k with any underspend from 2023/24 carried forward to create a larger fund. As part of the 2023/24 budget approval the fund was set at £1m, and the actual spend to date this year is c£352k. While there has been significant communication about the fund, take-up of the fund has been lower than anticipated. It is possible that take-up may increase during the winter and further action will also be taken to promote the fund and understand why take-up has been low and the position will be reviewed before the final budget is set in February. The fund provides targeted support to those most affected by the cost-of-living crisis and provides support and can provide support relating to rent, energy bills or other household bills.

5.6. Next year will be a 53-week rent year, this happens once every 5 or 6 years and this does cause issues for tenants in receipt of Universal Credit whilst most tenants will be unaffected. Legislation restricts the calculation of Universal Credit to the weekly rent multiplied by a maximum of 52 weeks, and this is then paid on a monthly cycle. This means that tenants are overpaid by

Universal Credit when they have to make four rent payments a month and underpaid when there are five payments due. In most years, the total rent due and Universal Credit paid will match, but in years with 53-week rent years, Universal Credit tenants are left short by 1-week rent, officers are continuing to look at options to resolve this for UC tenants with a recommended way forward to be included in the February report. The c5,000 tenants in receipt of Housing Benefit are unaffected by this.

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. The arrangement with an RP (Registered Provider) to manage c170 properties in West Gorton ended in March 2023 and the properties have been managed in house since 1st April 2023.

6.2. In the 2023/24 financial year Right to Buy Sales (RTB) have reduced from last year, which saw a peak of 233 RTB, although it is thought that this was due to the catching up after the pandemic. Sales of around 150 properties or c1% of stock numbers are forecast in the current year. The budget currently assumes 1.25% for the next three 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.

6.3. Based on current assumptions there will be c11,200 properties at the end of 30 years if the stock lost through Right to Buys continues at the trend rate and are not replaced. Whilst the Council do receive capital receipts for any properties sold under the RTB, these are ringfenced receipts and can only be used to fund replacement homes. The receipts have to be used in line with specific government guidance, and this includes

- only funding up to 40% of the costs of new stock,
- Not being used in conjunction with any other Government funding, therefore requires 60% match funding from other HRA resources, such as borrowing.
- Must be used within a five year timescale, or repaid to Government

To try and encourage provision of new stock, there is a cap on the number of properties that can be purchased.

6.4. Due to the work carried out by Housing Services, void properties are now lower than the 1% forecast as part of the current year's budget. There has been an improvement on the voids position which have reduced from the December 2022 figure of 182 to 140 voids in September 2023. 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.0.9 %.

6.5. Bad Debts – Analysis of what has been provided for bad debts over the last six years shows c0.6% based on rental income has been required. The provision currently applied across the Business Plan is 0.75% of estimated rent income per annum. Whilst 0.75% is higher than the actuals over recent years, given the likely pressure that tenants will be under because of the cost-of-living crisis it is prudent to assume 0.75% in 2024/25 and this will be kept under review.

Other Income

6.6. Other income is forecast to be c.£1.140m in 2024/25 and it is assumed that the majority of these budgets are uplifted by the forecast 4% inflation for 2024/25. The exception to this is the garage rents which are proposed to be increased in line with the housing rents increase 7.7%. The forecast 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 - **£436k.**
  - Other Income and Contributions – Contributions towards ground maintenance and solar panel income - **£279k.**
- Recharge to Homelessness **£238k** – rental income in relation to HRA properties used by Homelessness.
- Income from Leaseholders (e.g., contribution to heating, cleaning, and repairs to communal areas) - **£114k.**
- Investment Income **- £73k** in respect of interest due on balances.

Private Finance Initiative (PFI) Schemes

6.7. 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 4% in 2024/25, and this will reduce to 2% from 2025/26 onwards.

Communal Heating

6.8. As part of the HRA business plan it has always been the intention that tenants heating charges are set to reflect the actual costs of delivering heat, this includes the costs of gas consumed, and costs of infrastructure maintenance to deliver heat. Each year a budget is calculated, but there are usually some variances, mainly due to charges being set based on forecast costs of gas for the following year and use gas consumption from the previous year, resulting in mismatches in the timing of the bills.

6.9. Communal heating gas is sourced as part of the City Council gas contract and this is due for renewal in April 2024, it is only once the contract has been renewed that the price of gas will be known. For budget purposes it is estimated that gas will cost c.6.4 pence p/kWh. This is c.9% higher than the current costs and c.200% higher than the costs before the energy price rises due to worldwide turmoil in energy markets over the last two years.

6.10. At the time of 2022/23 budget setting an increase of c.80% was required to cover the costs of energy. 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%. The cost to the HRA to fund the gap between the gas prices paid and income received was c.£2.1m.

6.11. In 2023/24 costs to residents were increased by an initial 75% across all communal heating schemes, this was still insufficient to recover the costs of heating, and below the OFGEM price cap level, with the forecasted cost to the HRA being c.£0.6m. As the current charges to residents still do not cover the costs of gas to the HRA, coupled with the expected 9% increase in gas prices in April 2024, the proposed charges for residents are still being worked through. It is intended that the prices will be aligned to match the Ofgem price cap.

6.12. The current price cap of £1,923, set by Ofgem is based on a rate of 7 pence p/kWh for gas and a daily standing charge of 30 pence.

6.13. It is proposed to increase the tariffs to residents in line with the price cap as set by Ofgem from 1st January2024, this will be reviewed in April 2024 when the next price cap announcement is due, so that the charges are comparable with other residents who are not in communal heating schemes. This would bring the budget into a net surplus position, allowing the gradual recovery of prior year deficits.

6.14. In 2024/25 the total cost of gas is estimated to be £1.658m. There are c.2,150 homes connected to communal heating schemes. The overall average cost per property to cover the gas charge is £766 per annum, which is £15.03 per week. The average charge for residents paying via heating debits is £19.48 per week and for residents paying by Point of Sales it is £13.35 per week.

6.15. In calculating the charges based on the current Ofgem price cap the overall average charge would be £888 per annum, which is £17.76 per week. The average charge for residents paying via heating debits will be £21.65 per week and for residents paying by Point of Sales will be £15.77 per week. This equates to a c68% increase on charges in 2023/24, but aligns with the price cap.

6.16. 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 reduction in carbon emissions.

Debt Financing and Borrowing Costs

6.17. As part of the introduction of self-financing in 2012, the process included a calculation which determined the affordable level of debt for each HRA resulting in a national reallocation of debt. As part of the reallocation Manchester received a credit of c.£294m which enabled it to write off debt and reduced the capital financing requirement to c£121m as well as annual interest costs.

6.18. The 2024/25 opening HRA capital financing requirement is anticipated to remain unchanged at £121.26m, of which £60.7m is external debt, with the balance being met through the planned use of HRA reserves. If the reserves fall below the planned level 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 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.

6.19. Following the removal of councils' HRA debt caps, there is no upper limit to the absolute level of debt that can be held. However it must be shown that the debt can be serviced without the HRA going into deficit and this remains a significant barrier to the affordability of further investment. 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.

6.20. 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

6.21. The current approved programme of capital expenditure for the financial years 2024/25- 2026/27 is for approximately £122.8m of spend, of which c.£8.6m will be funded from grants and c. £42.8m from capital receipts. The profile of spend and funding is shown in the table below:

	2024/25	**2025/26**	**2026/27**	**Total**
	£'m			
Decent Homes	15.3	16.5		**31.8**
Minor Works	3.2	1.2		**4.4**
Asset Management	2.0	0.9		**2.9**
Delivery Costs	3.0			**3.0**
Social Housing Decarbonisation	37.5	7.8		**45.3**
North Manchester New Builds	0.4			**0.4**
Collyhurst Phase 1	20.8	5.0	3.9	**29.7**
ICT & Other	3.5	1.3	0.5	**5.3**
Total	**85.7**	**32.7**	**4.4**	**122.8**
Financed by:				

Grants	6.9	1.7	0	**8.6**
Capital Receipts	34.8	8.0	0	**42.8**
RCCO	44.0	23.0	4.4	**71.4**

6.22. The programme for 2024/25 is significantly higher than in previous years and will be challenging to deliver. It reflects the deadlines that have been set for spend of the Social Housing Decarbonisation Fund, the progression of the Collyhurst regeneration scheme, and the underlying programme of capital works to HRA housing stock. The programme is being reviewed to ensure that it is achievable, and the final budget will be set as part of the Council's Capital Strategy for 2024/25 and will then be monitored throughout the year and reported to members through Capital Monitoring reports. The February HRA report will be updated to reflect the position.

6.23. The approved programme includes a number of schemes that will support the Council in becoming carbon neutral by 2038. The main investment priorities for 2024/25 onward include:

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

6.24 The cost of reaching carbon zero in all of the housing stock is considerable, and the works required to reach to achieve the City's carbon ambition will have to be delivered in manageable phases and proposals are being worked up which look at:

- Aligning works with decent homes and asset management works where possible.
- Developing a programme to retrofit a fixed number of properties per annum to achieve economies of scale where possible and affordable.

6.25 The current investment programme includes the £11.6m Social Housing Decarbonisation Fund Grant successfully bid for in 2023/24. The funding is being used alongside City Council investment to progress boiler replacement programmes, installation of ground source heat pumps, and improved home insulation across the HRA estate. It should be noted that it is likely that the costs to deliver these works will have increased since the initial grant application, this is due to the tight timescales for delivery and the prevalent construction inflation in the market.

6.26 Officers are currently refreshing the asset management plan and this will be concluded during quarter 2 2024. The finalized plan will inform the future capital requirements and investment priorities for our housing stock. This will need to address important issues including ensuring decent homes standards are achieved and maintained, carbon reduction and fuel poverty are addressed, alongside the safety aspects on both fire risk and damp and mould. Resident engagement is a key part of developing this programme.

6.27 From 2026/27 a working assumption of £23m per annum of HRA funding towards the capital programme has been included within the business plan, whilst this does increase annually in line with inflation. Once the asset management plan work has concluded this will be used to inform the development of future years capital programme, although there will still need to be a programme of prioritization as demand is likely to be higher than the available resources.

6.28. The HRA capital budget already allows for the costs and implications of the 130 new properties in Collyhurst that are due to be completed in 2025/26. -

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

MCC Housing Services

6.30. Following the integration of the ALMO (Arm's Length Management Organisation) in 2021, the council has worked closely with residents, partners and elected members to develop the new vision for the MCC Housing Services, which incorporates the profound changes through the imminent Social Housing Act, Building Safety Act, Consumer Regulations and the new Tenant Satisfaction Measures, which came into effect from April 2023, as well as the integration with the council.

6.31. 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

6.32. The new vision directly informs the ongoing development of the new target operating model for MCC Housing Services. The new operating model will focus on delivering to the priorities set out above and is due be finalised during 2024.

6.33. The 2024/25 costs of Housing Services are forecast to be c£15.2m 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 £0.876m to allow for forecast pay award costs.

6.34. 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.

6.35. The residual £0.8m efficiencies largely relates to savings options that have not been taken forward, such as closure of neighbourhood offices and the need to support ongoing financial pressures in the service due primarily to increased demand and regulatory changes.

6.36. As part of the work to fully integrate housing services within the Council, and recognition of the increased demands work is ongoing to identify options for HRA savings going forward, this work review the target operating model to ensure we can not only meet our statutory requirements, but also ensure that the service continues to provide value for money. As part of the work to look at ensuring a sustainable HRA as part of the 2025/26 HRA budget officers will identify a range of savings options for consideration by members.

Repairs and Maintenance Contract

6.37. 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 2023/24 was uplifted for CPI +1% which was 9.67% at that time. The highest increase in costs has been seen in materials and sub contract costs where inflation has been running at around 10%.

6.38. The Repairs and Maintenance budget for 2023/24 was set at c.£16.8m. The current forecast spend for the year is c.£20.7m. The table below shows details of the current years forecast costs by workstream. The overspend in year is mainly due to new workstreams of c£1.3m in addition to the higher than forecast inflationary costs.

Workstream	**Forecast Costs £000's**	**Comments**
R & M costs	8,579	Forecast 55k repairs in 23/24
Cost of Void Properties	3,586	Securing and repairing 574 void properties
Annual Servicing Costs	3,358	Includes electrical, mechanical, smoke detectors and technology – c34k services
Aids and Adaptations	2,371	Majority of these costs are capitalised
Fire Risk Assessment	500	New requirements in 2023/24
Damp & Mould	835	New requirements in 2023/24 – forecast 5,500 inspections
Other Costs	542	
Contractor Overhead	2,948	Contractually agreed
Total Gross Costs	**22,719**	
Less Capitalised Costs	**(2,019)**	
Net Revenue Costs	**20,700**	

6.39. Costs such as materials have risen much more steeply over the last two years. This, combined with the requirement to carry out more work around fire risk and damp & mould have meant that the contract costs have increased to a budget of c£20.55m for 2024/25. Officers are currently in negotiation with the contractor on options to reduce the costs whilst not impacting on service delivery. Within the contract the annual budget is based on prior year costs, uplifted by inflation +1%.

6.40. Work is currently ongoing to assess the viability of bringing the repairs service back into the Council. A Delivery Model Assessment has been carried out, which is being evaluated by the Major Projects Board.

6.41. In addition to the budget for repairs, a £2m budget has been introduced for legal, counsel and compensation costs for disrepair. This has been historically unbudgeted, but significant spending in this area necessitates the need for it to be budgeted.

6.42. The reactive repairs service remains under a high level of service demand, with an average of over 1,000 repair service requests each week. In response to increasing service demand, additional resources have been deployed which has resulted in a gradual reduction in the number of works in progress. Despite high service demand, improved service delivery processes and increased supplier resources have resulted in an improving customer experience, with customer satisfaction with the repairs service at a year-to-date performance level of 85%.

Inflation Assumptions

6.43. 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 c4% in 2024/25, reducing to c2% ongoing in future years.

Garage Rents

6.44. It is proposed that 2024/25 garage rents are increased in line with the original rent formula of 7.7%. 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	£115.86	£2.23	£124.78	£2.40	£0.17
Prefabricated	£250.06	£4.81	£269.31	£5.18	£0.37
Brick Built	£293.84	£5.65	£316.47	£6.09	£0.44

7. Reserves Forecast

7.1 The overall reserves position is forecast to be c£97m at the start of 2024/25, and around £61m is the general reserve. The table below shows the forecast reserves position over the next three financial years.

Reserve Description	2023/24 (Forecast) £000	2024/25 £000	2025/26 £000	2026/27 £000
General Reserves	60,681	33,165	24,131	15,500
Residual Liabilities Fund	24,000	24,000	24,000	24,000
PFI Reserve	10,000	10,000	10,000	10,000
Total Reserves	**94,681**	**67,165**	**58,131**	**49,500**

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 2024 (excluding the Insurance Reserve) will be c£94.7m. This reduces by c£45m over the next three financial years to around c.£50m by the close of 2026/27 and this is due to the c£71m 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 2024/25 to see if any of the funding can now be released. As part of the budget strategy around £60m of reserves are used to fund internal debt, and this reduces the annual interest charges, once reserves fall below the £60m the interest charges on debt will increase.

7.4 Current projections show that the overall reserves go into a negative position at around 2032/33 and are forecast to reach a deficit level of £62m at the end of the 30 years. As stated above, work is being carried out to reduce the deficit and give more confidence that a balanced position will be reached. This will be reported to February RAGOS and Executive.

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.