Manchester City Council
Report for Resolution

Report To:	Resources and Governance Scrutiny – 8 February 2024 Executive - 14 February 2024
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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Purpose of the Report

This report presents members with details on the proposed Housing Revenue Account (HRA) budget for 2024/25, and an indication of the 2025/26 and 2026/27 budgets. 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. Government has already announced that benefits are to also increase in line with the September 2023 CPI rate with effect from April 2024, so this will help mitigate any impact of the increase for tenants in receipt of benefits.

Additional financial support is available which is targeted at those most affected by the cost-of-living crisis and provides support relating to rent, energy bills or other household bills to all City Council tenants, which includes residents within PFI areas. The Community Living Fund is £1m in 2023/24 and proposed to be retained for 2024/25 with £300k being made available.

Recommendations

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

Wards Affected: All

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 (HRA) 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 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 over the 30-year period, this is currently manageable, within current resources, although officers are looking at options for savings as part of the 2025/26 budget process to close the forecast budget gap. Part of the long-term 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.

Financial Consequences – Capital

Within the proposed HRA budget a mandatory charge for depreciation is made, which is transferred and held in the Major Repairs Reserve (MRR), which can only be used to fund capital expenditure or reduce long term borrowing. In 2023/24 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 have been considered as part of preparing the proposed 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.

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 general 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 (RPs) 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 maximized.

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 resulted in a permanent loss of rental income to the HRA of almost £300m over the 30-year business plan, which had to be contained by reducing expenditure over that time by the same amount to remain in balance.

3.3. In addition to the rent policy changes, there have been other pressures on the HRA business plan, these include the recent high inflation rates that have increased the costs, particularly capital costs but also the increased requirement to ensure that all tenants have a decent, safe and secure home.

Whilst this is not new for the City Council it does bring increased regulatory demands. These changes have brought about increased costs and therefore increased pressures because we are not able to increase rents over and above the rent policy. This is not unique to Manchester and all other social housing providers are having to review their business plans to ensure that the new demands can be met, whilst ensuring long term sustainability.

3.4. 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 6.35 – 6.40.

3.5. This report sets out the assumptions that underpin the HRA business plan and seeks to consider all risks, ensuring that all 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 in relation to rental increases or inflation levels 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 certain.

3.6. 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."

3.7. Total HRA reserves (excluding the Insurance Reserve) are forecast to be around c£90m at the end of the current financial year (2023/24) but are forecast to reduce by c£63m by 2025/26 to around £27m. These reductions reflect the significant capital investment plans of c£138m over the next three years. This includes c£102m of HRA resources, with the balance from external grants and capital receipts. 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 6.19-6.27) of this report. Whilst there is some investment allocated to decarbonise the housing stock, the current capital programme does not reflect the full costs of retrofitting the entire council stock to reach the Council's zero carbon target by 2038. It is estimated that this will cost around £460m, or c£30k per property over and above the works already planned. This is unachievable from within current ringfenced HRA resources without additional government support.

4. Current Year's (2023/24) Budget Position as at Period 9

4.1. The original approved gross HRA budget is £117m and included a £35.5m revenue contribution towards the £60.4m capital programme. The HRA is currently forecasting an overspend of £4.094m made up of:

- Higher than forecast costs of repairs and maintenance of £8.764m. This is due to a combination of higher than forecast inflation increases and additional works to address additional regulatory requirements in relation to both damp and mould and fire risk assessment works £5.746m as well as forecast costs of £2.317m in respect of tenants claims for repair works that have not been undertaken, often known as disrepair claims, £365k management costs and £336k relating to intensive housing charges.
- Other smaller overspends amount to £0.605m.
- This is offset by additional interest earned on balances due to increasing interest rates (£1.860m) and reductions in the budget allocated to PFI sprinkler works which are now funded from capital receipts (£2.089m).
- Other net underspends of (£1.326m) including (£1.038m) reduced costs of gas because of a combination of reduced consumption, and reductions in wholesale gas prices.
- 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 2024/25 - 2026/27

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.

5.3. Whilst the inflationary impact is providing cost pressures on the HRA, there is also the impact of many years underinvestment that is having to be addressed. This includes investment in back-office systems and processes, particularly the ICT infrastructure and the planned investment in the stock. Following the integration of the ALMO a key priority has been to ensure ICT system improvements are made, and resources have been allocated to fund this with works due to be completed in 2024.

5.4. 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 2024/25 Budget Assumptions

Rental Income

5.5. In previous years the Government's formula rent guidance assumes that rents increase by up to 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%. This HRA budget has been prepared in line with the formula rent of 7.7% to all tenants, with effect from April 2024. Based on these increases the average weekly rent (based on 53 weeks) will be:

- General Needs £90.12 (£6.44 increase)
- Supported Housing £82.34 (£5.89 increase)
- PFI Managed £109.78 (£7.85 increase)

5.6. 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, at £300k.

6. Management of Housing Stock and Property Numbers

6.1. The Council continues to own and manage c.15,000 properties within the HRA under various arrangements. These include in-house management of c12,000 properties, three PFI schemes that include c.2,600 properties, and one management arrangement with Peaks and Plains for 11 properties. The arrangement with a RP to manage 170 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) were lower than the peak of 233 properties in 2022/23, in the aftermath of the pandemic. Sales of around 136 properties (c.1% of stock numbers) are forecast in the current year. The budget assumes ongoing 1% RTB sales per annum. 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 proactive strategy of replacement is adopted. There have been 69 new council homes built at Silk Street in Newton Heath and a further 130 new Council Homes are expected to be complete by 2025/26, which offsets reductions through RTB.

6.3. 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. 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 social or affordable 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, a cap on the number of existing properties that can be purchased directly has recently been introduced.

6.4. Due to the work carried out by Housing Services, void properties are now just above 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 166 voids in December 2023 the void levels in PFI areas are below 1%. It should be noted that whilst voids have reduced over the 12-month period, they have increased in recent months because of larger properties becoming available as 37 people have vacated larger properties and moved into right sized properties in Silk St. Given the amount of stock the target is to ensure as many properties occupied as possible, although it is recognised there will always be a number of void properties and the target should be no more than 100 void properties. This is having a positive impact on relet time and void rent loss. For budgeting purposes, it has been assumed that the ongoing work to reduce voids will continue and the void rate will be c.0.9 % per annum going forward.

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.£2.072m in 2024/25 and it is assumed that the majority of these budgets are uplifted by the forecast 4% inflation for 2024/25. In most cases there are separate lease arrangements for these premises and the rents are subject to increases in line with the lease conditions. 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 - **£346k.**
- Recharge to Homelessness **£240k** – 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 **- £0.936m** 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 from tenants. Whilst the PFI credits are a fixed amount over the life of the contract the PFI contracts are not capped and increase in line with contractual inflationary increases - for budget purposes the increase is forecast to be 4% in 2024/25, reducing to 2% from 2025/26 onwards.

6.8. PFI's were a popular way to access external investment and renewal into neighbourhoods and their housing stock. The long-term arrangement includes both ongoing annual management and maintenance of the stock as well as the repayment of the initial build costs. The cost of the overall investment is paid through an annual unitary charge to the contractor. Currently around 33% of the overall HRA expenditure is incurred on around 3,000 properties, which will revert back to the Council at the end of the contracts.

Communal Heating

6.9. 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.

6.10. Communal heating gas is sourced as part of the City Council gas contract and this is due for renewal in April 2024, next year's prices have not yet been confirmed but for budget purposes it is estimated that gas will cost c.5,17 pence p/kWh, which includes the daily standing charge costs. Whilst this is a reduction of c.21% from the current price, it is still c.150% higher than the costs before the energy price rises due to worldwide turmoil in energy markets over the last two years.

6.11. The current forecast price cap of £1,620, set by Ofgem is based on a rate of 5.73 pence p/kWh for gas and a daily standing charge of 30 pence.

6.12. It is proposed to change the tariffs to residents in line with the price cap as set by Ofgem from 1st April 2024, and mirror the Ofgem price cap going forward. This will ensure that the charges are comparable with other residents who are not in communal heating schemes. A deficit was initially created in 2022/23 as the increased costs of energy were not fully passed on to tenants, resulting in significantly lower bills for those tenants served by communal heating systems. By following the price cap, it is expected that the deficit will be slowly recovered as the Council benefits from buying from its corporate contracts.

6.13. In calculating the charges based on the forecast Ofgem price cap the overall average charge would be £723 per annum, which is £14.46 per week. The average charge for residents paying via heating debits will be £18.86 per week and for residents paying by Point of Sales will be £12.28 per week.

6.14. 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

6.15. As part of the introduction of self-financing in 2012, the affordable level of debt for each HRA was determined, 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.

6.16. The 2024/25 opening HRA capital financing requirement is anticipated to remain unchanged at £121.3m. This includes £60.7m of external debt, with the balance being internally borrowed against 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.

6.17. 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.

6.18. 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

6.19. With the increased demands and scrutiny on the housing sector, and the ongoing cost pressures it has become increasingly difficult to balance all of the calls on the HRA. In addition to the regulatory and statutory needs, and ongoing decent homes there is also the need to build new stock to ensure that stock numbers are at least sustained, and all this must be considered against the Councils zero carbon targets for 2038. Based on the current HRA business plan, it is not possible to achieve all the demands for investment, and there is a need for prioritisation to ensure that the resources are used in the most effective way, against the increased demands on the HRA and to do this there will need to be some difficult choices made.

6.20. The forecast capital programme for 2024/25 to 2028/29 is £149.7m, of which c.£6.8m will be funded from grants, £28.4m from capital receipts, £16.8m from the HRA revenue budget with the remaining £97.7m from the Major Repairs Reserve, which is replenished each year by the amount of depreciation that is charged to the revenue account. The profile of spend and funding is shown in the table below:

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Total**
	£'m					
Decent Homes	8,976	8,498	6,406	1,604		**25,484**
Minor Works	2,800	5,389				**8,189**
Asset Management	1,242	2,519	2,460			**6,221**

Delivery Costs	3,173					**3,173**
Social Housing Decarbonisation	15,519	19,816	12,183	5,252	4,701	**57,471**
North Manchester New Builds	405					**405**
Collyhurst Phase 1	20,756	4,821	3,700			**29,277**
ICT & Other	2,934	1,771	734			**5,439**
Property Acquisitions	11,004	3,040				**14,044**
Total	**66,809**	**45,854**	**25,483**	**6,856**	**4,701**	**149,703**
Financed by:						
Grants	2,233	4,573				**6,806**
Capital Receipts	25,213	3,265				**28,478**
Major Repairs Reserve	36,241	24,736	25,103	6,856	4,701	**97,637**

RCCO	3,122	13,280	380			**16,782**

6.21. Delivering a programme of this size for 2024/25 is ambitious given current marketchallenges including inflation and supply chain constraints. The capital investment plans reflect the underlying programme of capital works to HRA housing stock, the progression of the Collyhurst regeneration scheme and the Social Housing Decarbonisation schemes. The programme will be reviewed throughout the financial year, with any changes reported to members at the earliest opportunity.

6.22. The budget profile reflects a revised timetable and cost for the Social Housing Decarbonisation scheme following a review. Estimated costs have increased by c.£10.5m as a result of building cost inflation. However, there is also a need to undertake more detailed surveys on properties before work can commence. A budget increase request will be brought forward if required once a final programme is agreed. The Council is working with the Greater Manchester Combined Authority to seek approval to amend the completion dates and are reviewing the costs of each project to ensure value for money. Works to some properties will be considered when they next become empty to avoid having to decant tenants to complete the required investment and work to those homes.

6.23. There are two new investment programmes which are included in the forecast, and which are expected to form part of the Capital Strategy report to Executive. These are related to property acquisitions within the HRA, including the repurchase of former Council properties that may have been sold through the Right to Buy initiative, to be funded from RTB receipts. 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. The business plan includes the income and costs associated with these new properties entering the portfolio once completed.

6.24. The approved programme includes a number of schemes that will support the Council in becoming carbon neutral by 2038. There are a number of competing demands currently for the limited capital resources, the housing services asset strategy sets out that decent homes and building safety are the key priorities for investment, and the council's zero carbon ambitions have to be balanced against these statutory obligations.

6.25. The cost of reaching net zero is considerable, and the works required to reach the ambition will have to be delivered in manageable phases and include:

- 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.

6.26. The asset management plan is being refreshed and is expected to be concluded during quarter 2 of 2024. The finalised 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 c. £24.5m per annum of depreciation, index linked to inflation, has been assumed in the HRA business model, which will be used to fund capital works across the HRA estate. Once the asset management plan work has concluded this will be used to inform the development of future years capital programme and prioritise works.

MCC Housing Services

6.28. 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 Social Housing Act, Building Safety Act, Consumer Regulations, including Awaab's Law and the new Tenant Satisfaction Measures, which came into effect from April 2023, as well as the integration with the council. The changing regulatory landscape does present a risk to the future sustainability of the HRA.

6.29. 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

6.30. The 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.

6.31. The 2024/25 costs of Housing Services are forecast to be c£15.4m 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.

6.32. 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.

6.33. 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.

6.34. As part of the work to fully integrate housing services within the Council, and recognition of the increased statutory demands, work is ongoing to identify options for HRA savings going forward, including the development of the target operating model to ensure that statutory requirements will be met and whilst continuing to provide value for money. In order to ensure a sustainable HRA in future years it is necessary to look at what options are available to reduce the costs of managing and maintaining the housing stock. These options will be available for consideration as part of the 2025/26 Budget process.

Repairs and Maintenance Contract

6.35. 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. As part of the contract the annual budget is uplifted each year by CPI +1% which was 9.67% at the start of 2023/24, and whilst budgets are uplifted the costs are based on actual costs incurred and, in some instances, the actual costs have been subject to inflationary increases greater than the uplift applied to the budgets. During the year the monthly contract payments are based on the initial budgeted amounts, with reconciliation of actual costs being undertaken and then any adjustments being made at year end. It is the reconciliation amounts that are used to determine any pain/gain payments that are due.

6.36. The Repairs and Maintenance budget for 2023/24 was set at c.£16.8m, but the current forecast at c.£22.5m. The increased costs of £5.7m have mainly arisen because of additional works largely related to the increased health and safety demands on landlords, these include increased electrical and mechanical servicing (£0.7m), home safety works, including damp and mould and fire risk assessments (£1.83m), smoke alarms (£0.8m). In addition to the additional safety requirements there are c£1m increased costs in respect of both day-to-day repairs and void repairs, this is partly due to the work undertaken in year to reduce the number of voids and should not be recurring. The table below shows details of the current forecast.

Workstream	**Forecast Costs £000's**	**Comments**
R & M costs	8.877	
Cost of Void Properties	4.316	Securing and repairing 516 void properties
Annual Servicing Costs	4.091	Includes electrical, mechanical, smoke detectors and technology
Aids and Adaptations	2.495	Majority of these costs are capitalised
Fire Risk Assessment	882	New requirements in 2023/24, majority of these costs funded via transfer of budget from capital

Damp & Mould	908	New requirements in 2023/24 – forecast 5,500 inspections
Other Costs	1.177	Includes reconciliation from previous year and other costs within the repairs general ledger code
Contractor Overhead	2,753	Contractually agreed
Total Gross Costs	**25,499**	
Less Capitalised Costs	**(2,969)**	
Net Revenue Costs	**22,530**	

6.37. Officers are currently in discussion with the contractor to look at options to reduce the costs whilst not impacting on service delivery, this will include reviewing the existing delivery model and what can be done to reduce the overall annual costs.

6.38. The Council have agreed to extend the Housing Repairs and Maintenance contract for up to three years, with annual break clauses, the extension commences from 1st April 2024. In line with Council policy a Delivery Model Assessment will be carried out in advance of any decision to extend the contract and will be overseen by the Major Contracts Board.

6.39. In addition to the budget for repairs, a £2m budget has been introduced for legal, counsel and compensation costs for claims made by tenants for works that have not been undertaken to their properties. These are known as disrepair claims and there is an increasing number of claims partly due to increased numbers of legal firms cold calling tenants offering their support. This has been historically unbudgeted, but significant spending in this area necessitates the need for it to be budgeted and is line with the broader social housing sector.

6.40. 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

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

Garage Rents

6.42. 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£93m at the start of 2024/25, and around £56m 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	56,126	30,451	5,157	-7,347
Residual Liabilities Fund	24,000	24,000	24,000	24,000

PFI Reserve	10,000	10,000	10,000	10,000
Total Reserves	**90,126**	**64,451**	**39,157**	**26,653**

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£90.1m. This reduces by c£63.4m over the next three financial years to around c.£26.7m by the close of 2026/27 and this is due to the c£91m 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 are exhausted by 2029/30 and it is imperative that work is undertaken to identify opportunities to reduce costs as part of the 2025/26 budget process.

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.