

HRA video transcript

1. HRA Budget Setting

Oxford City Council provides social housing to its tenants via the Housing Revenue Account – or the HRA.

The HRA is essentially a landlord account funded from the rental income and other charges to Tenants and is accounted for separately to the rest of the Council's finances.

The majority of other council services are funded from Council Tax, Business Rates, Government Grants, income generated via the council owned companies, rental income from the lease of council owned commercial premises, and other income generated by individual services like car parking for example.

The money collected in the form of rents and service charges is used to maintain, improve and manage the HRA.

This income is also used to finance new housing stock, either built for, or purchased by the HRA.

The HRA manages a current stock of over 7,791 homes consisting of flats, maisonettes, houses, bungalows, sheltered accommodation, and shared ownership dwellings.

2. Approved Budget

The current budget for 2022 to 2023 is 47.9 million pounds as detailed here.

As can be seen, the HRA is funded in the majority by rental income and must plan its expenditure budgets to ensure the expected income will cover all of the costs.

3. Expenditure categories

Costs within the HRA can be classed as either controllable – through restricting or limiting spend, or non-controllable – fixed due to historic events or calculated in accordance with accounting standards.

Controllable

This includes Management & Administration and covers the costs of HRA staff, such as those responsible for Rent Collection, Tenancy Involvement, Allocations, Furnished Tenancies, Resident Liaison, Tenancy Management etc.

It also covers the recharges for the services provided by other departments within the council, for example Property Services, Finance, Human Resources, Office Accommodation, IT and the Corporate Management Team.

Also, Other Revenue costs which include stock related project costs, Refurbishment Administration and the Right to Buy Sales.

Miscellaneous Costs include Regeneration Project costs which are non-stock related.

Responsive and Cyclical Repairs are day to day costs of keeping the housing stock in a good condition, and fully compliant with certification requirements. This includes services supplied by the Council's own company Oxford Direct Services.

Non-Controllable

This includes Bad Debt Provision – the HRA sets aside an amount of budget to cover a percentage of Rent Arrears that are highly unlikely to be recovered.

Interest Paid – this is the financing cost of any borrowing the HRA has used to finance its capital expenditure.

Depreciation – this is an amount calculated for accounting purposes, and relates to the apportionment of property value used over the course of the accounting year.

Capital Investment

In addition to the day to day revenue expenditure outlined above, the HRA also invests in its housing stock through capital expenditure.

This type of expenditure is mostly for the development or acquisition of new homes, and improvements to existing homes – such as improving energy efficiency.

Capital expenditure can be funded via a range of resources, unlike the day to day revenue expenditure:

Revenue Contributions - this could be a planned contribution or surplus from the revenue budgets at the year end.

Capital Receipts – the proceeds from the sales of assets.

Major Repairs Reserve – this is topped up with an amount equal to the depreciation charge each year.

Capital Grants – from government departments and other public organisations such as Homes England.

Borrowing – this is usually long term borrowing from the treasury on an interest-only basis.

This should be the balance of funding required after all other funding options have been exhausted.

Financing Costs

Interest is paid on any borrowing outstanding on an annual basis.

The total debt outstanding will be made up of the funding borrowed to pay the Secretary of State under the Self Financing determination in 2012, plus any borrowing taken out in respect of historic capital expenditure.

Rental Income

Rental Income is the primary source of funding for the HRA, and the expenditure budgets are limited by the amount of expected rent.

On an annual basis, as part of the Medium Term Financial Plan (MTFP) report, the HRA sets the Rent for HRA tenants for the next financial year.

The rent setting is governed by two government documents, The Rent Standard and the Rent Policy Statement.

The maximum increase in rent is currently restricted to CPI + 1% (CPI as at September in the preceding year) until 2025 at which point this will be reviewed by the government.

As well as the restriction on maximum increases, rents are also capped as follows:

Social Rent – rent caps apply as a maximum ceiling on the formula rent, and depend on the size of the property (the number of bedrooms it contains).

Where the formula rent would be higher than the rent cap for a particular size of property, the rent cap must be used instead.

Affordable Rents – the rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent.

‘Gross market rent’ means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector.

Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private sector.

The HRA must adhere to these restrictions and caps on rent increases even if a tenant’s rent is below formula rent, or if the HRA has previously applied a lower – or no – annual increase.

Where this is the case, the HRA may only move the rent up to formula rent when the property is re-let following vacancy (subject to the rent cap).

Due to the current high rate of inflation, the government has limited the rent increase on social housing for 2023/24 to a maximum of 7%, well below the increases to costs within the HRA.

Housing Benefit & Universal Credit

As at the end of July 2022 there were a total of 3,559 HRA tenants (45.6%) claiming Housing Benefit or the Housing Cost element of Universal Credit, made up of 2,318 Housing Benefit claimants and 1,241 Universal Credit claimants.

The amount claimed by each tenant will vary depending on their individual circumstances.

4. Current Budgetary Challenges

There are a number of factors that are currently impacting on the HRA budget:

Increase in Utility Costs

Electricity Costs for communal areas have risen dramatically this year by over 60%, whilst the cost of Gas for heating our Older People accommodation and Temporary Accommodation have more than doubled.

Repairs and Maintenance

The cost of materials for Repairs & Maintenance have increased by up to 40%, as has the cost of replacing kitchens, bathrooms, doors and fencing.

Additional Investment

Additional Investment in Housing Stock is required to comply with the government’s current targets for Energy Efficiency, Decent Homes, and Zero Carbon.

The challenge is to balance the expenditure to the rental income, whilst also:

- Providing decent homes for local residents.
- Maintaining and repairing homes in a timely manner.
- Complying with current legislation and minimise risk to tenants health and wellbeing.
- Improving the condition of existing homes to meet the government's targets.

Hopefully this has answered all of your questions, but if there is anything further that you would like to know, then please do not hesitate to contact me. Thank you.