

Robustness of Estimates and Adequacy of Reserves Housing Revenue Account

1. Background

- 1.1. As part of its budget setting processes, the council has a duty to consider the adequacy of its reserves and working balances.
- 1.2. Under Section 25 of the Local Government Act 2003 the Section 151 Officer is required to state in the budget report their view on the robustness of estimates for the coming year, the medium term financial strategy and the adequacy of proposed reserves and balances.
- 1.3. Section 26 of the same Act places an onus on the council to ensure that it has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.
- 1.4. This report sets out the view of the Director (Corporate Services) as S151 Officer pertains to the 2023/24 budget process and provides consideration of the budget proposals and the financial risks facing the council, alongside a summary of the review of reserves and working balances undertaken.

2. Reserves Policy

- 2.1 The council has developed a Reserves Policy which documents how it will manage and utilise its financial reserves in meeting the financial challenges it faces over the medium term. This is reviewed annually, with the current version at Appendix 4a.

3. Principles to assess risk in relation to the Adequacy of Usable Reserves

- 3.1 In order to assess the adequacy of usable reserves when setting the budget for the Housing Revenue Account (HRA), the Director (Corporate Services) has considered the risks facing the HRA and future investment requirements in capital and other projects. This information has been supplemented with consideration of the council's financial management and control arrangements, the national political and economic situation, advice from professional bodies and reserve practices of other like authorities to derive the recommended level of working balances and reserves for the 2023-24 financial year.

4. Assessing the risks

- 4.1 A risk assessment has been undertaken which attempts to quantify the risks to the Council's financial position in the forthcoming financial year for the Housing Revenue Account. The outcomes of this assessment can be found at Appendix 3b.

5. Consideration of the council's financial management and control arrangements

- 5.1 In preparing the detailed budget for 2023-24, the Financial Services Team has engaged with budget holders and their services to ensure that the budget is based on realistic estimates of income, expenditure and liabilities.
- 5.2 The council has in place a continual process for reviewing and adjusting its budget during the financial year. Monthly budget monitoring reports are presented to budget holders for review and comment. All reports to the Corporate Management Team and Members for decision are required to consider financial implications so that these can be properly understood and captured in the decision-making process. On a quarterly basis formal budget monitoring reports are produced and considered by the Corporate Management Team and Members to enable the reporting of budget variances over

£10,000 and to provide the mechanism to call to account budget holders where this is appropriate.

6. National Considerations

- 6.1. Local government has experienced a sustained period of financial uncertainty and significant change. There is continued uncertainty relating to the overall UK economy which has seen significant volatility in recent months that has resulted in high inflation and costs particularly in the areas of repairs and maintenance.
- 6.2. In November 2020 the Ministry of Housing, Communities and Local Government published the Social Housing White Paper 'The Charter for Social Housing Residents'. The Charter sets out the actions the government will take to ensure that residents in social housing are safe, are listened to, live in good quality homes, and have access to redress when things go wrong.

7. Movement in Working Balances and Reserves

- 7.1. In furtherance of this analysis, movements in working balances and reserves have been considered and are set out in the next table. This indicates a positive trend in maintaining the level of working balances of the HRA. Whilst the analysis shows year-on-year reductions of the balance within the HRA General Reserve, these have been managed movements and have been reported to senior management and Members through the council's budget monitoring arrangements.

	Balance as at 31/03/23 ('000s)	Balance as at 31/03/22 ('000s)	Balance as at 31/03/2021 ('000s)	Balance as at 31/03/2020 ('000s)	Balance as at 31/03/2019 ('000s)	Balance as at 31/03/2018 ('000s)
HRA Minimum Working Balance	3000	3,000	3,000	3,000	3,000	3,000
HRA General Reserve	669	729	2,763	3,038	6,085	7,441
Total	3,669	3,729	5,763	6,038	9,085	10,441
Net Annual Movement (+ represents an increase in balance)	- 60	- 2,034	- 274	- 3,047	- 1,356	

- 7.2. Two reserves will be created in 2023/24. A balance of £4.690m will be placed into a Debt Repayment Reserve which will be used to facilitate the repayment of the HRA's debt in current and future years following the exercise to review the HRA Debt position that will be undertaken during the course of the year. A further £500k will be placed into a HRA Priority Reserve which will provide a source of finance for essential work that is outside of normal activity and therefore not included within the budget.

8. Benchmarking

- 8.1. Benchmarking was undertaken to consider the relative positions of the minimum working balances retained by the authorities in England assessed as being the most similar to Gravesham Borough Council and other Kent stock holding authorities. This identified that the level of minimum level of working balances retained by this authority (at £3m), is higher than most. It is important to note, however, that Gravesham has a larger housing stock than all other comparators, with Gravesham's housing stock at 31 March 2022 standing at 5,660. The review also recognises that each authority will structure their reserve arrangements differently and will be affected to a greater or lesser relative degree by the risks outlined in the risk assessment at Appendix 4b, as well as differing net revenue budget requirements and policies around how they establish contingency amount.

9. Assessing the appropriateness of Working Balances and Reserves

- 9.1. The introduction of self-financing to the Housing Revenue Account (HRA) in April 2012 fundamentally changed the way that local authority housing is funded. All rental income

is retained locally in return for the authority taking on a level of debt representative of the value of the stock. The level of debt taken on by Gravesham Borough Council amounted to £106 million, and at the end of 2022-23 will stand at £61m. The HRA has £9.6m of Market debt which it has taken on in the last two years to finance the New Build programme. The HRA will refinance £2.3m of debt during 2022-23 and take on a further £7.1m of debt during 2022-23 in relation to the New Build Programme taking the total debt as at the end of 2022-23 to £80m.

- 9.2. Business planning is central to a self-financed HRA to inform financial and service planning and managing risk. The business plan shows how over 30 years the rental and other income will fund all the investment needs of the stock, servicing of the debt and day-to-day management and repair requirements. It is the main tool for the financial management of the HRA and has a substantial impact on the asset management plans.
- 9.3. However, with 30 year business planning and the undertaking of £106 million of long-term debt/financing comes an increased risk to the authority of being unable to meet annual debt repayment obligations and the demands of managing around 5,660 council homes. The roll out of the Full Service for Universal Credit commenced in May 2018 and the council has experienced growing financial pressures for the council, and to residents in receipt of benefits. The on-going financial impact of the cost-of-living crisis on our tenants is unknown. However, the council will continue to offer this support to its tenants in 2023-24 while continuing to make a distinction between those who cannot pay, and those who will not pay. The budget for 2023-24 reflects the potential effect of the cost-of-living crisis on the rental income stream for the HRA and this will be reviewed during the course of the year with updates provided through quarterly budget monitoring arrangements.
- 9.4. After considering the risks set out at appendix 4b to this report, professional advice and reserve practice of other comparator authorities it is the opinion of the Director (Corporate Services), that the minimum level of working balances be retained at £3 million. It is also considered that the Housing Revenue Account will continue to maintain adequate reserves and working balances and that the budget proposals recommended to Cabinet are robust and sustainable. The risk assessment conducted does, however, set out a number of areas of risk or uncertainty and for this reason, activity has already commenced to review future budgetary provisions and capital programme requirements to identify opportunities to sharpen and test future expenditure plans to inform future planned borrowing decisions.

10. Opportunity Cost of holding reserves

- 10.1 Having set minimum levels, the opportunity cost of holding reserves needs to be considered. All balances are used to either reduce temporary borrowing or are invested subject to other cash flows. Therefore, in measuring any opportunity cost of holding these reserves, account needs to be taken of the interest saving. The opportunity cost of holding the reserves is therefore a judgment whether the 'worth' of expenditure foregone is more than the income generated. Given the current economic climate and prevailing uncertainty over future grant funding it is considered that the risks the authority is exposed to exceed the opportunity cost of holding reserves.