

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 2024/25 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 3a.

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 2024-25 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 2024-25, 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 years that has resulted in high inflation and costs particularly in the areas of repairs and maintenance.
- 6.2. In addition, the responsibilities for the Council acting as Landlord has increased significantly in recent years which places further pressure on revenue and capital budgets.
- 6.3. Following the Grenfell fire in June 2017, the Building Safety Act 2022, the Fire Safety Act 2021 and the Fire Safety (England) Regulations 2021 came into effect on 23 January 2023. This requires the Council to upgrade and regularly inspect fire doors, upgrade fire detection and install evacuation alert systems.
- 6.4. The Social Housing (Regulation) Act 2023 became law in April 2023 which established a new decent homes standard. The Regulator of Social Housing is currently conducting several consultations to determine regulations and associated guidance and it is anticipated that these will be published in early 2024. The Regulator of Social Housing now has the power to inspect and assess Local Authority providers and issues unlimited fines and non-financial penalties through their preventative powers. The Council's capital programme includes planned works programmes for several elements to ensure the decent homes standard is maintained.
- 6.5. The Housing Ombudsman has published a report to address the issue of damp and mould. The Government subsequently issued a letter to all social housing providers stressing the seriousness of damp and moulds in homes. Providers were reminded that they must listen when tenants raise complaints and that they need to undertake assessments of the most serious damp and mould hazards and take rapid action to resolve them. The Council has produced a policy in response to this issue and has developed an action plan. There is a provision within the Capital programme to tackle this issue in its housing stock.
- 6.6. The Government has set out expectations of social landlords to improve energy performance of its housing stock, ensuring all properties reach an Energy Performance Certificate rating of a minimum of C as well as the decarbonisation of gas boilers to be replaced with more sustainable heating by 2035. Initial indications are that it will cost £90.7m to lower the carbon emissions of the housing stock with current energy efficiency improvements available. This figure is likely to increase with rising costs of materials and services and increased market demand due to Government targets. More than £120m is required to meet carbon neutrality in housing by 2050.

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.

	Projected Balance as at 31/03/24 ('000s)	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)
HRA Minimum Working Balance	3,000	3,000	3,000	3,000	3,000	3,000
HRA General Reserve	893	1,754	729	2,763	3,038	6,085
HRA Priorities Reserve	500	-	-	-	-	-
Total	3,893	4,754	3,729	5,763	6,038	9,085
Net Annual Movement (+ represents an increase in balance)	- 861	1,025	- 2,034	- 274	- 3,047	- 1,356

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 2023 standing at 5,644. 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 3b, 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 2023-24 will stand at £52.4m. The HRA will also have £7.2m of additional market debt at the end of 2023-24, which it has taken in the last few years to finance the New Build programme and to refinance maturing debt. The HRA will refinance £21.5m worth of debt during 2023-24 and take on a further £5.8m of debt during 2023-24 in relation to the New Build and Acquisition Programme taking the forecast total debt as at the end of 2023-24 to £86.9m.

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 5,644 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 2024-25 while continuing to make a distinction between those who cannot pay, and those who will not pay. The budget for 2024-25 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 3b 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.