

Meeting EXECUTIVE
Portfolio Area Housing and Housing Development /
Resources and Transformation
Date 13 DECEMBER 2023



DRAFT HOUSING REVENUE ACCOUNT BUDGET SETTING AND RENT REPORT 2024/25

KEY DECISION

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1 PURPOSE

- 1.1 To update Members on the final proposals on the Housing Revenue Account (HRA) budgets and rent setting for 2024/25, to be considered by Council on 24 January 2024.
- 1.2 To update Members on the formula for setting rents for 2024/25.
- 1.3 To propose the HRA rents for 2024/25.
- 1.4 To propose the HRA service charges for 2024/25.
- 1.5 To update Members on the 2024/25 HRA budget, incorporating the decisions included in the HRA Business Plan Review report that was approved at the Executive meeting on the 15 November 2023 and the proposed 2024/25 fees and charges.





2 RECOMMENDATIONS

- 2.1 That HRA dwelling rents be increased (week commencing 1 April 2024) by 7.7%. This equates to an average increase of £8.45 for social rents, £13.12 for affordable rents and £9.96 for Low Start Shared Ownership homes per week (based on a 52-week year).
- 2.2 That the 2024/25 service charges are approved as set out in paragraph 4.2.
- 2.3 That the HRA budget for 2024/25, set out in Appendix A, is approved.
- 2.4 The 2024/25 growth options as set out in section 4.4 are approved.
- 2.5 That the 2024/25 Fees and Charges as set out in Appendix B are approved.
- 2.6 That the revised minimum levels of balances for 2024/25 shown in Appendix C are approved.
- 2.7 That Members note the Rent Increase Equalities Impact Assessments appended to this report in Appendix D.
- 2.8 That Members approve the increase to the 2023/24 Working Budget of £256,540, to fund the 2023/24 pay award, as detailed in paragraph 4.4.11.
- 2.9 That the contingency sum of £400K, within which the Executive can approve supplementary estimates, be approved for 2024/25 (unchanged from 2023/24).
- 2.10 That the decisions taken on recommendations 2.1 – 2.9 above be referred to the Overview and Scrutiny Committee for consideration in accordance with the Budget and Policy Framework rules in the Council's Constitution.
- 2.11 That key partners and other stakeholders are consulted and their views considered as part of the 2024/25 budget setting process.

3 BACKGROUND

- 3.1 The HRA is a legally ring-fenced account that records the income and expenditure relating to the operation of the Council's housing stock. The main costs in the HRA relate to management, maintenance, depreciation (used to finance capital works) and interest on loans. This is mainly funded from rents that make up the majority of HRA income. Any surpluses are held in the ring fenced area and are used to contribute towards capital and offset years where the account may be in deficit.
- 3.2 The sustainability of the HRA is highly reliant on rent levels. For 2023/24 rent setting the government imposed a rent cap of 7% on social landlords when the current rent standard would have given an increase of 11.1%, based on the September 2022 Consumer Prices Index (CPI) +1%. However, the Government did allow the underlying formula rents to increase by the full amount and this means that new and relet property rents in 2023/24 will be at the higher rate.
- 3.3 The HRA Business Plan was revised and approved at the November 2023 Executive meeting. The report outlined the challenges facing the HRA, the current proposals for investment in the stock and explained that, due to the current uncertainties in key areas like regulation and climate change, the plan

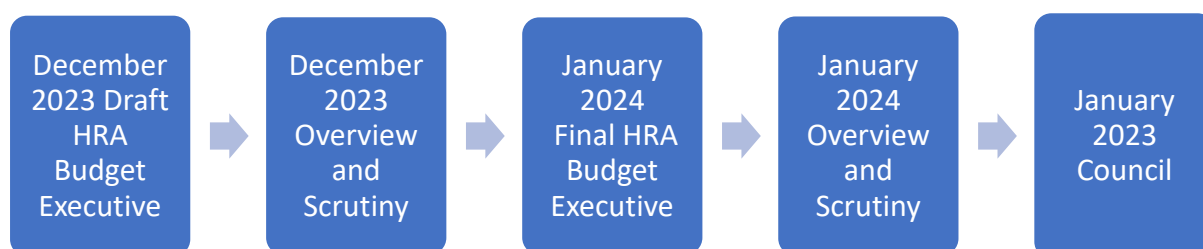
will need more regular revision in future years. The main commitments included in the plan are summarised in the table below.

 Borrowing and RCCO	 Housing Development	 Housing Asset Management	 Housing Service Delivery
<p>New Borrowing for Capital Investment £351m (30Yrs)</p> <p>Refinanced debt to enable revenue operations £104m (30Yrs)</p> <p>Revenue contribution to capital £18m in (years 1-5)</p>	<p>Invest £734m in new stock (30Yrs)</p> <p>Deliver 2,253 units (30Yrs) 447 in next 5yrs</p> <p>Commence 3 new schemes to maintain dev. pipeline. Deliver new homes to 5 star promise</p> <p>Larger schemes phased for staggered delivery matched to funding. Switch to market purchase if supply needed urgently.</p> <p>Continue pilot projects for new tenures and sustainable design.</p>	<p>£893m stock investment funding (30Yrs)</p> <p>£482m repairs, void and cyclical maintenance (30Yrs). Efficiency target removed, due to regulatory pressures</p> <p>All properties to EPC-C by 2030</p>	<p>£818m in non-maintenance revenue funding (30Yrs)</p> <p>Savings target £200k 24/25 then £500k pa for 8yrs. Total £20m in yrs 2-11.</p> <p>Growth of £200k pa to enable service improvement / efficiency</p>

- 3.4 As set out in the 2023/24 budget report there are still developing policy issues in the HRA regarding the decent homes standard and building regulations; overall regulation of the sector and compliance requirements; and environmental improvements, like decarbonisation of the housing stock. Some of these cost pressures have been incorporated into the HRA BP and 2024/25 budget, but will need to be revised, as the impact of these changes becomes clearer. However, the Business Plan does not currently include the cost of decarbonising the Council's housing stock which is currently estimated cost £150Million (at current prices) and this will need to be addressed in coming years.
- 3.5 Government reforms of the 'Use of Right to Buy (RTB) Receipts' reported in 2021/22 have positively benefited the Council in the short term by supporting existing development plans, in particular the simplification of the system by
- the extension of spending periods for receipts from three to five years,
 - increase in the percentage of receipts that can be used in acquisitions from £30% to 40% (thus reducing the contribution required from the HRA).
 - a limit on acquisitions of existing properties through open market purchase, to be phased in by 2024.

This will continue to be closely monitored as medium-term plans are developed and reviewed.

- 3.6 The HRA is also still being impacted by the cost-of-living crisis facing the country. In addition to high inflationary pressures on expenditure, rent arrears are still at historically high levels and are continuing to rise, as people struggle to meet increased prices for food, energy and fuel bills. The complexity of people’s financial circumstances is also increasing, leading to multiple debts and urgent requests for support.
- 3.7 The Budget and Policy Framework Procedure Rules in the Constitution prescribe the Budget setting process, which includes a minimum consultation period of three weeks. Under Article 4 of the Constitution, the Budget also includes: the allocation of financial resources to different services and projects; proposed contingency funds; setting the rents; decisions relating to the control of the Council’s borrowing requirement; the control of its capital expenditure; and the setting of virement limits.



4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Rents

- 4.1.1 The total number of HRA homes in management on 30th November 2023 is summarised in the table below. The average rents for 2023/24 are based on current housing stock, any right to buys or new schemes coming on stream after this date may change the average rent per property type.

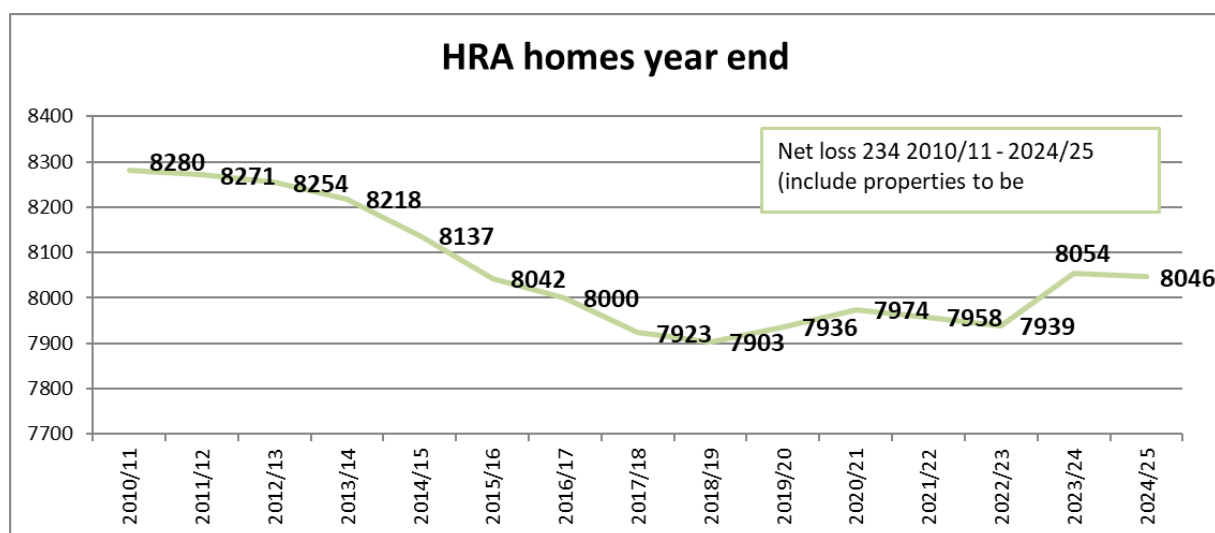
Stock Numbers at 30/11/2023	Social	Affordable	Sheltered	LSSO	Homeless	Total
Number of Properties	6,799	66	794	79	232	7,970

- 4.1.2 For 2024/25 rent setting has returned to the current Rent Standard of September CPI plus 1 %. The September CPI was 6.7% meaning rents will increase by 7.7%.
- 4.1.3 The proposed average rents per week for 2024/25 are set out in the table below, based on a 52 week year and the current housing stock in management.

Average Rents 2024/25	LSSO	Increase/ (decrease) %	social	Increase/ (decrease) %	Affordable	Increase/ (decrease) %
Average Rent 2023/24	£131.03		£111.15		£172.67	
Add rent impact 2024/25	£10.09	7.7%	£8.56	7.7%	£13.30	7.7%
Total 52 week Rent 2024/25	£141.12		£119.71		£185.97	

4.1.4 The 2024/25 net rental income increase is estimated to be £4.5Million, which includes the estimated impacts of right to buys, expected new properties and properties taken out of management (awaiting redevelopment).

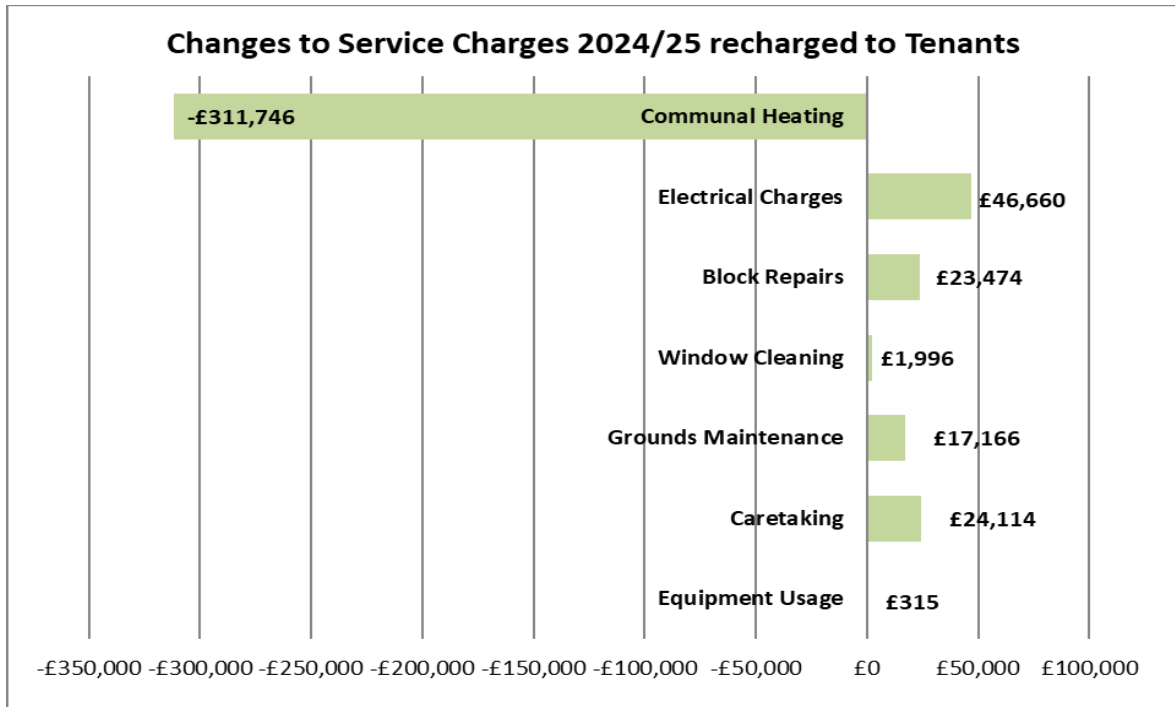
4.1.5 The total number of Council homes is estimated to reduce by 234 between 2010/11 and the end of 2024/25 (based on the net impact of RTBs, new homes and homes awaiting development). The forecast numbers for 2024/25 reflect the impact of new developments and acquisitions compensating for RTB sales.



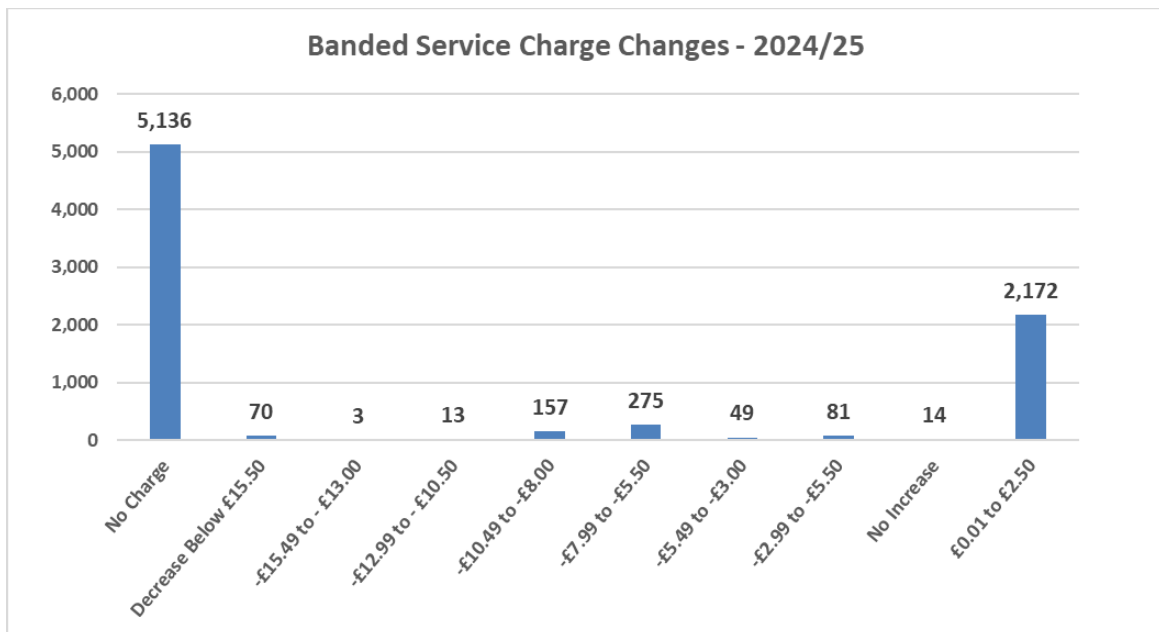
4.2 Service Charges 2024/25

4.2.1 Service charges are calculated on an individual block basis for 2,834 properties, (2023/24, 3,063) or 37% of current SBC tenanted properties.

4.2.2 Service charges are not subject to a 7.7% rent increase, but are based on cost recovery or actual cost. So for 2024/25, service charge costs will increase with inflationary pressures and changes in usage. The chart below identifies the changes between 2023/24 and 2024/25 for service charges. The estimates are based on the projected budgeted costs for 2024/25, with the exception of block repairs, which is 'smoothed' over a five-year period to eliminate individual in-year spikes in repairs spend. The graph illustrates that, after last year's price spikes for gas supply, current estimates show a projected 40% reduction in costs and this has been reflected in the service charges for communal heating systems.



4.2.3 The spread of service charge changes for all tenants in 2024/25 is shown in the chart below. As in last year's report, these figures do include the communal heating charge (for those tenants receiving this service), as the impact of utility prices is so significant at this time. The impact of these changes is that 5,136 (64%) homes do not have service charges. Of those 2,834 properties that are eligible for service charges 648 (8%) will have decreases up to £17.50 per week, due to lower gas costs, and 2,172 (27%) will have increases up to £2.50 per week.



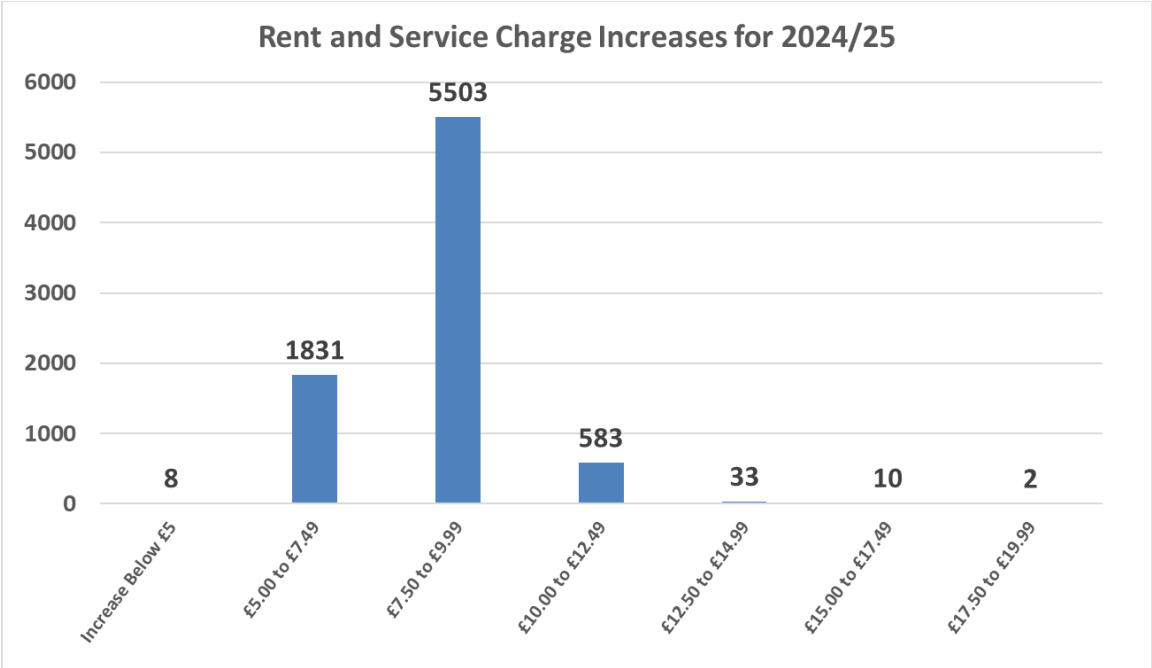
* note increase per week

4.2.4 The reduction in gas prices has significantly reduced the service charges that include heating costs. However, even with these reductions the charges are still much higher than historic levels. To help mitigate the impact on tenants heating charges will be adjusted to the actual cost for 2023/24, rather than the estimate, to ensure that no customer pays more than the gas used in their property. This area will remain under review during 2024/25 and any changes in pricing will be adjusted at the soonest opportunity to ensure that the service charges remain in line with costs.

4.3 Rents and Service Charges

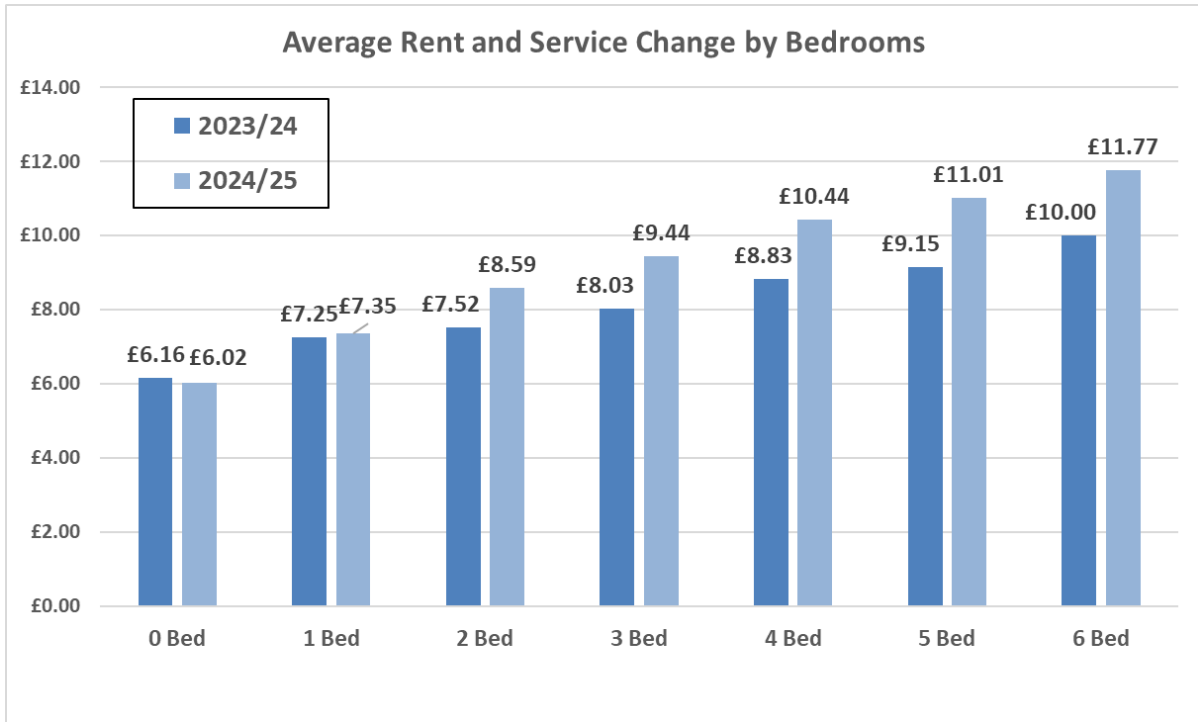
4.3.1 The impact of the 2024/25 rent increase and service charges is that 7,424 homes, or 93%, receive a weekly rent and service charge increase between £4.00 and £9.99. The reduction in utility prices has led to lower increases for some homes offsetting the impact of the CPI +1% rent increase of 7.7% The increases above £9.99 mainly relate to larger properties and where affordable rents are paid.

4.3.2 The spread of the 2024/25 rent and service charge changes are summarised in the chart below.



**note increase per week*

4.3.3 The average rent and service charge increase by bedroom size has also been calculated and summarised in the chart below.



4.3.4 The comparison between HRA property rents per week and private sector rents per week, for one to four-bedroom properties, is shown in the table below. A three-bedroom private sector rental property costs an additional 114%, (2022/23,131%) more per week than an SBC council home and 28% more than the affordable let properties, (2022/23 30%).

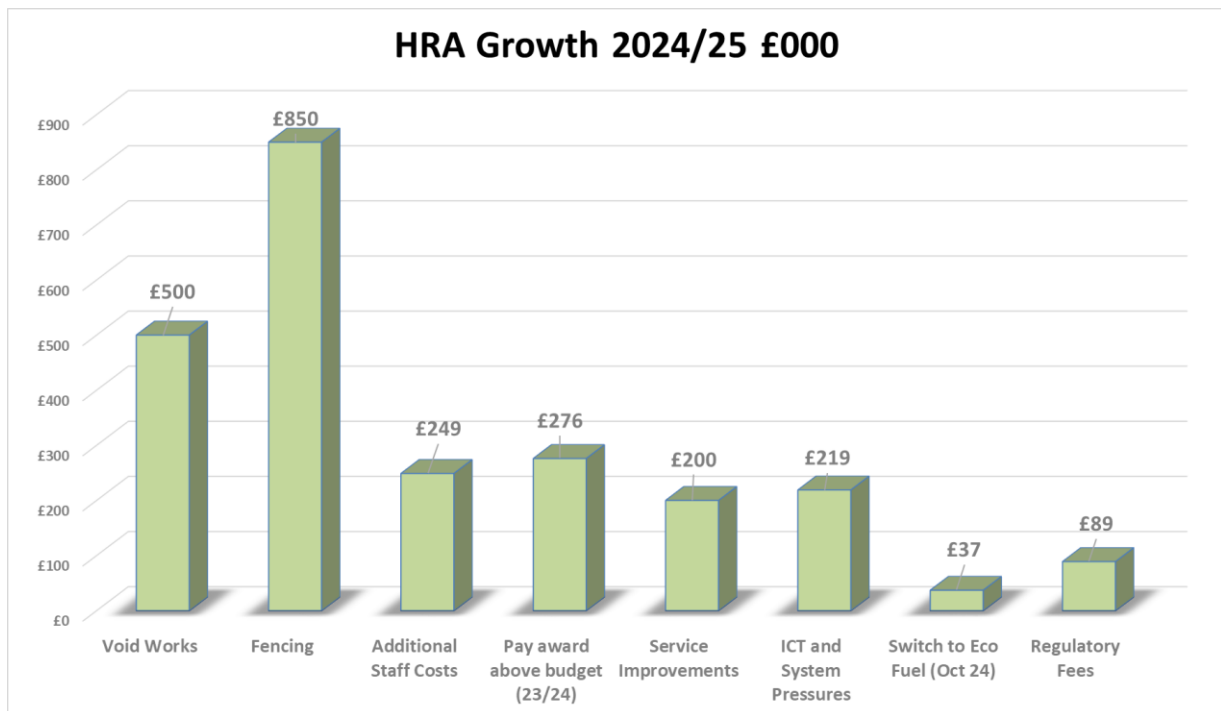
	SBC Social Rent	SBC Affordable Rent	Median Private Rent	Local Housing Allowance (LHA) 2023/24	Median % v SBC Social	Median % v SBC Affordable
1 Bed Property	£102.37	£153.70	£178.87	£155.34	75%	16%
2 Bed Property	£118.43	£196.10	£214.65	£195.62	81%	9%
3 Bed Property	£131.85	£238.45	£257.58	£241.64	95%	8%
4 Bed Property	£145.44	£279.32	£357.75	£299.18	146%	28%

Private rent Data from ONS as at March 2023 updated by ONS rental inflation for East of England to October 2023. Please note the SBC rents are April 2024 prices and the private rents October 2023 prices.

4.3.5 The Local Housing Allowance (LHA) shown in the table above is the maximum amount of housing benefit payable by property size for private rented properties.

4.4 Growth and Savings included in the HRA

4.4.1 The revenue growth included in the 2024/25 HRA budget is summarised in the chart below and reflects the items agreed in the HRA Business Plan at the November Executive.

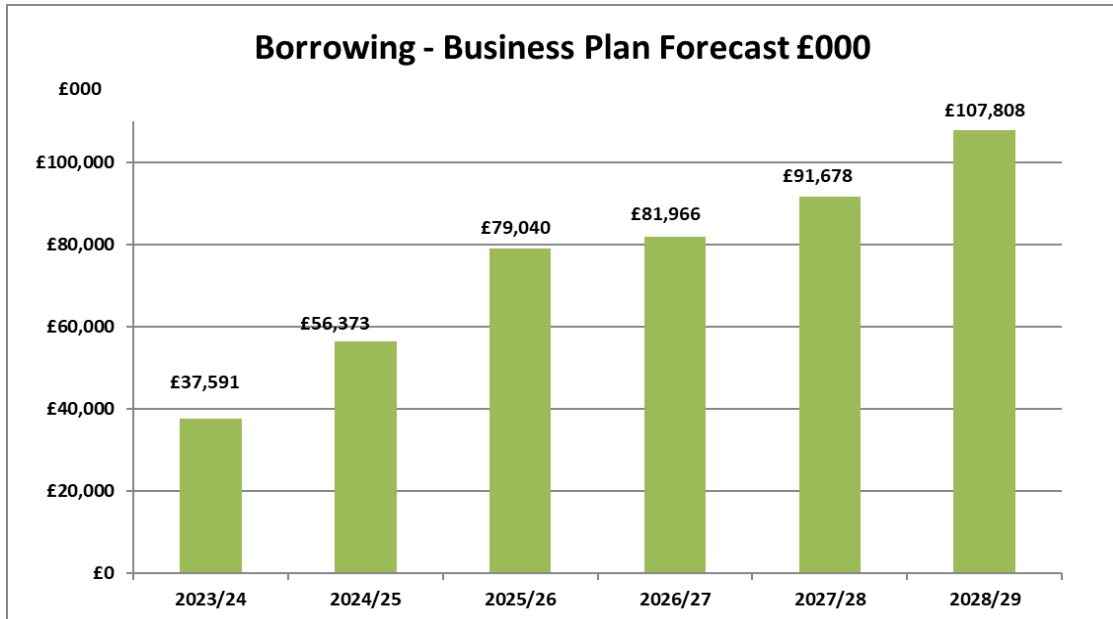


- 4.4.2 **Void Works £500K** – One off growth of £500K has been included to meet additional costs relating to void properties. This service has been subject to an operational review in consultation with the Community Select Committee. The operational model, resulting from this review, is currently being finalised and this takes into account additional demands from the new consumer regulations. This is likely to require further growth in 2024/25 and this will be reported when the new operating proposals are fully costed.
- 4.4.3 **Fencing £850K** – Another one off growth item of £850K has been included to continue the work in clearing the current backlog of fencing repairs and replacements. Further proposals for the service will be finalised in 2024/25 for the following budget year.
- 4.4.4 **Additional Staff Costs £249K** - There are staff posts that have been extended in response to operational challenges, such as higher levels of arrears and changes to regulations for the housing service. These costs have been included as ongoing in the budget, however service reviews will be undertaken as part of the Transformation programme and the need to make balancing the budget savings as outlined in the HRA Business Plan.
- 4.4.5 **Pay Award 2023/24 £276K** - There are additional costs of £276K in relation to the 2023/24 pay award that is higher than the original budgeted cost of 3%. This is slightly higher than the requested growth in 4.4.11 for the current year, as the budgets for next year are based on the full establishment and there were vacancies in 2023/24 that reduced the cost.
- 4.4.6 **Service Improvements £200K** – A sum of £200K per annum has been included to enable transformation projects and service improvements. It was recognised in the HRA Business Plan that the service will need to find continual efficiencies to be able to meet future demands and this growth is intended to enable those improvements.

- 4.4.7 **IT and System Pressures £219K** – This is the HRA's share of the ICT pressures identified in the General Fund Balancing the Budget report to the November Executive. The additional growth bids include licencing costs and the HRA share of the SOCITIM review of the ICT service as recommended to the Executive by the Shared ICT Committee.
- 4.4.8 **Switch Vehicle Fleet from Diesel to HVO (Eco) Fuel £37K** – As part of the Council's climate change ambitions Members approved (in the Balancing the Budget report that went to Executive in November 2023) to switch its vehicle fleet to HVO (eco) fuel from October 2024. This area is currently being reviewed, but initial estimates show a small growth of £37K to the HRA. Any change to this estimate will be included in the Final HRA Budget report.
- 4.7.9 **Regulatory Fees £89K** – The Housing Ombudsman has increased their annual fees to the Council and the Regulator of Social Housing is introducing new fees next year in recognition of its role in regulating customer standards within local authorities. As a regulated housing provider, both of these fees are obligatory and have therefore been included in the budget for 2024/25.
- 4.4.10 The Balancing the Budget savings options for the HRA total £47,260 and have been included in the draft HRA budget. However, there is still a further £200K savings that will need to be found in 2024/25
- 4.4.11 Finally, there is a request as part of the draft budget report that the current salary budgets are increased by £256,540 in 2023/24. This is in order to meet the additional costs of the final pay award recently agreed with the trade unions. The amount for this year is slightly lower than the growth requested for next year, due to vacancies.

4.5 **Borrowing**

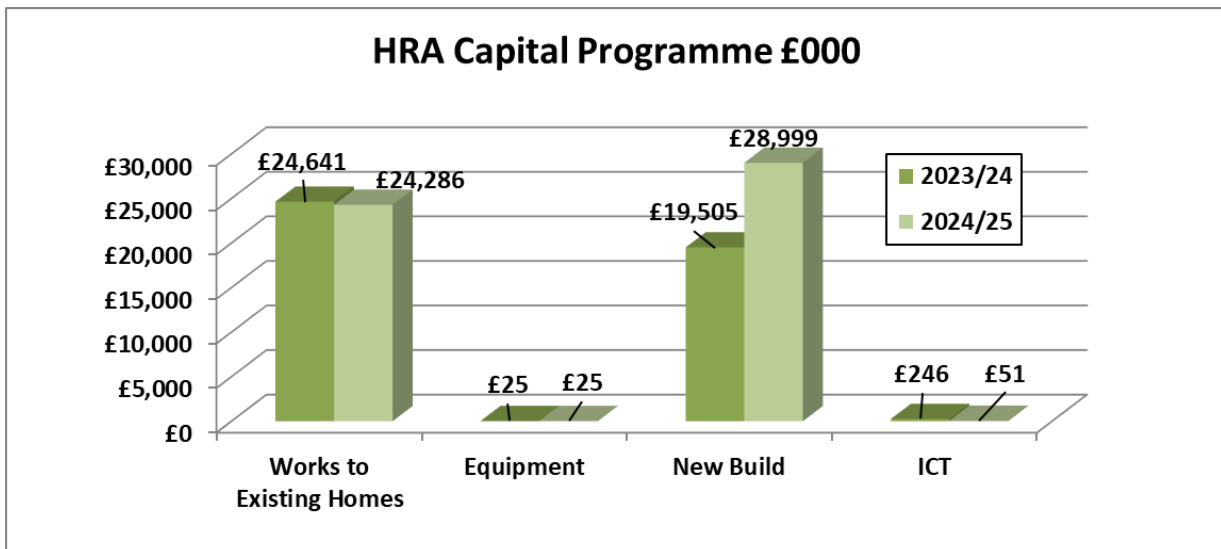
- 4.5.1 Based on current forecasts, new loans totalling £37.6Million and £18.8Million are expected to be taken in the current and next financial years for 2023/24 and 2024/25. However, the timing of when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing Public Works Loan Board (PWLB) rates. The interest payable in 2023/24 and 2024/25 is estimated to be £8.9Million and £9.4Million respectively.
- 4.5.2 Currently interest rates have continued to stay higher than the unusually low levels seen in the past decade. For next year the Draft Budget assumes a rate of 4.6%, but the HRA Business plan assumes a long term average of 4%. The HRA has also been given a preferential rate for borrowing from the PWLB and this discounted period was extended in the recent Autumn Statement.



4.5.3 This graph shows the cumulative borrowing projected in the HRA Business Plan. The debt to be taken for 2023/24 and 2024/25 is £56.3Million, of which £37.5Million is converting internal borrowing to external debt.

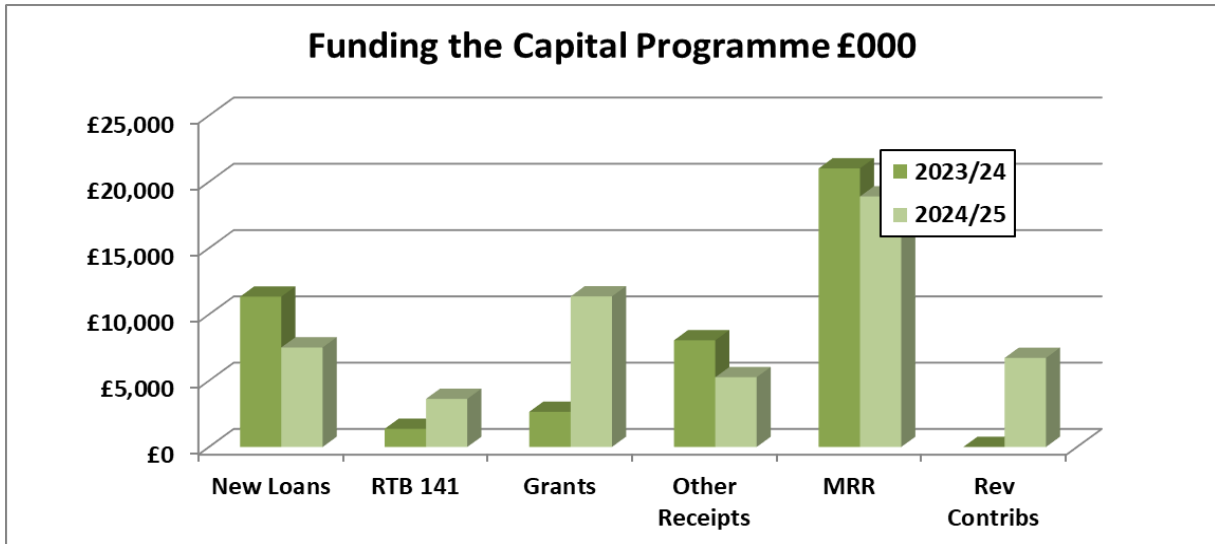
4.6 Capital Expenditure

4.6.1 The table below shows the revised capital programme for 2023/24 and the proposed spend for 2024/25. This position was used to construct the HRA business plan, but the final programme will be included in the capital budget reports for 2024/25 and any revenue implications will be shown in the final HRA budget report in January.



4.6.2 The majority of the capital expenditure relates to work on existing homes and the new build programme. The capital works on the housing stock is projected to be in line with the current year and the projected spend on new schemes is in line with the development programme included in the business plan. The table below shows the funding sources for the programme. Most of the work to existing homes continues to be financed from the major repairs

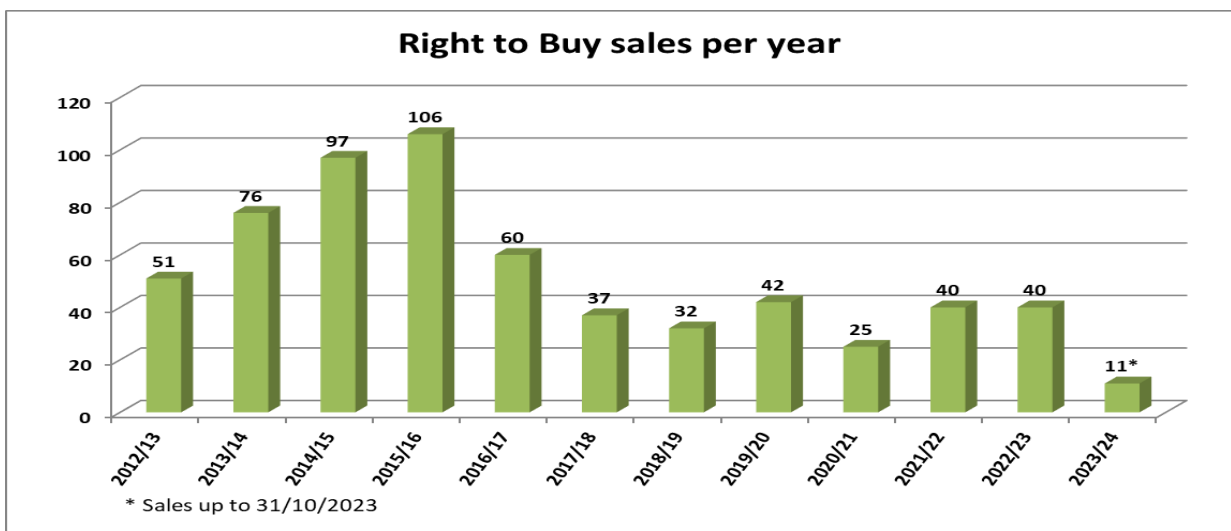
reserve (funded from depreciation charges to the HRA) and the new build costs from loans and receipts. However, there has been an increase in the revenue contributions to capital in 2024/25 in line with the business plan projections and we are due to receive significant grant income for decarbonisation projects and to support the provision of temporary accommodation.



4.7 Use of One for One Receipts

4.7.1 The Council has an ambitious development programme and is currently completing a major redevelopment scheme at the Kenilworth Road site. This has helped to ensure that RTB receipts have been spent within the new time limits and the Council has been able to make full use of the Government’s decision to allow authorities to retain all of the receipts from sales for 2022/23 and 2023/24.

4.7.2 Sales of properties remain lower than the recent peak in 2015/16 and it looks likely that they will be in line with projected estimates of 35 properties for 2022/23. The budget for 2023/24 continues to assume sales of 35 properties for rent budgeting and capital receipts purposes. The graph below shows recent sales activity by year.



4.8 Draft Budget Proposals

4.8.1 The Draft 2024/25 HRA budget is estimated to be a net deficit of £81,770. The table below shows the main movements in the budget and includes growth proposals for 2024/25 detailed in 4.4 above.

Summary of 2024/25		
Working Budget 2023/24		(£1,776,030)
Adjusted for "one off" and non-carry forward items	(£1,369,760)	
Revised Base Budget from 2022/23		(£3,145,790)
Increases in Income/Reductions in Expenditure:		
Additional Rental Income and other fees and charges	(£4,688,290)	
Savings Target	(£200,000)	
Transfer from Interest Equalisation Reserve	(£5,921,000)	
		(£10,809,290)
Increases in Expenditure:		
Increase in loan borrowing interest	£1,912,420	
Increase in Depreciation trf to MRR	£1,275,570	
Increase in Bad Debt Provision	£48,440	
Increase in Revenue Contrib to Capital	£6,715,130	
Interest on Balances	£59,610	
Net Salary Increases for Inflation/NI/Re-grading/Pensions	£459,000	
Business Plan Growth Items	£2,420,080	
Utility Inflation	£315,880	
Contract Inflation	£277,420	
General Inflation	£157,630	
Net change in Recharges to/from General Fund	£374,240	
Net increase in growth / decrease in savings options		
Other minor changes	£21,430	
		£14,036,850
Total Net Changes:		£3,227,560
Draft HRA 2024/25 budget		£81,770

4.8.2 All HRA balances, in excess of the minimum balance held for assessed risks in year, are required to fund the HRA 30-year programme.

- 4.8.3 A risk assessment of balances has been completed and is in Appendix C to this report. The HRA balances currently exceed this for the reasons set out in paragraph 4.8.2. There has been a significant increase in the minimum balance calculation from £3.3Million to £10.3Million. This is in order to mitigate the higher borrowing levels included in the HRA Business Plan and to allow greater flexibility to respond to future challenges facing the account.

HRA Balances:	2023/24 £	2024/25 £
HRA Balance 1 April	(10,569,201)	(12,385,251)
Use of balances in Year	(1,816,050)	81,770
HRA Balance 31 March	(12,385,251)	(12,303,481)
Minimum Balances	(3,320,000)	(10,261,500)
Debt Repayments	(9,065,251)	(2,041,981)

4.9 Consultation

- 4.9.1 The proposals in this paper are the result of detailed consultation with Executive Members, Senior Executives and service managers across the Council. They also reflect customer priorities identified through the Tenant's Survey.
- 4.9.2 Further consultation will take place following this Executive meeting, including consideration by relevant Member committees before the proposals are presented to Council for agreement in January 2024.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 Financial implications are included in the body of the report.

5.2 Legal Implications

- 5.2.1 Legal implications are included in the body of the report.

5.3 Staffing Implications

- 5.3.1 The unions will be consulted on the options contained in this report, where there is an adverse impact on staffing resources. Human Resources staff will co-ordinate centrally the implementation of any staff related savings from the budget process.

5.4 Risk Implications

- 5.4.1 Due to frequent Government policy changes, there are significant risks in setting the HRA budget. Historically the ring-fenced account has relied almost solely on rent income to finance both revenue and capital works. Many changes in policy, including the loss of £225Million from the Business Plan from four years of rent reductions, have made medium to long term planning difficult and for 2023/24 there was a 7% rent cap. Overall risks have also increased with the removal of the debt cap in 2019, as the Council is making long term financing decisions, on capital investment, based on income streams set by the current policy.
- 5.4.2 Currently one of the continuing risks to the account is a large increase in arrears. These have increased, in part as a result of tenants switching from housing benefits to Universal Credit, but also due to the Cost-of-Living crisis. To mitigate this position increased resources are still in place to help recover rent owed and the provision for bad debt has been increased to recognise that not all the outstanding debt will be recovered.
- 5.4.3 Inflation rates are still above the Government 2% target which will continue to put pressure on capital and revenue repairs budgets and may put further pressure on HRA resources. There are also continued risks in recovery of high utility costs from tenants and leaseholders.
- 5.4.4 The full operational implications of regulatory changes are still being implemented, in particular the response to the Social Housing Regulation Act, Building Safety Act and the Fire Safety Act. As policy and best practice is developed this could increase budget pressures on the HRA.
- 5.4.5 There is a risk of interest rates being higher than projected and leading to a reduction in the amount of expenditure for both revenue and capital. There is also a risk that the PWLB rate differential between gilts and borrowing rates for the HRA might be adjusted from the current 60bps and leading to a reduction in the amount of expenditure for both revenue and capital.
- 5.4.6 The HRA has a £200,000 saving target built into the 2024/25 budget linked to expected savings from the Transformation programme. With future years savings increasing to £500,000 per annum.

5.5 Equalities and Diversity Implications

- 5.5.1 In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Act replaced three previous equality legislations – the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A). The Council has a statutory obligation to comply with the requirements of the Act, demonstrating that as part of the decision-making process, due regard has been given to the needs described in the legislation. These duties are non-delegable and must be considered by Council when setting the budget in January 2024.

- 5.5.2 To inform the decisions about the Budget 2024/25 officers have undertaken Brief Equality Impact Assessments (EqIAs) for service-related budget proposals, which will be further developed as proposals are agreed and implemented. Where there is a potentially negative impact, officers have identified further action needed to inform a final decision and to mitigate the impact where this is possible.
- 5.5.3 Attached as Appendix D is an EqIA for increasing the rent charged by 7.7% per annum, including the mitigations that will be implemented to lessen the impact wherever possible.

6 BACKGROUND DOCUMENTS

- BD1 Final Housing Revenue Account (HRA) Budget Setting and Rent Report 2023/24 - January 2023 Council
- BD2 Housing Revenue Account Business Plan Review 2023 – November 2023 Executive

7 APPENDICES

- Appendix A – Housing Revenue Account Summary
- Appendix B- Fees and Charges
- Appendix C – Risk Assessment of Balances
- Appendix D - EQIA for HRA Rent