Part I – Release to Press

Agenda item

Meeting	CABINET
Portfolio Area	Housing and Housing Development / Resources and Transformation
Date	11 DECEMBER 2024

DRAFT HOUSING REVENUE ACCOUNT BUDGET SETTING AND RENT REPORT 2025/26

KEY DECISION

Authors	Keith Reynoldson; Brian Moldon
Contributor	Ash Ahmed; Andrew Garside; Clare Fletcher; Denise Lewis; Richard Protheroe; Kerry Clifford
Lead Officers	Richard Protheroe; Clare Fletcher
Contact Officer	Keith Reynoldson; Brian Moldon

1. PURPOSE

1.1 To update Members on the proposals for the Housing Revenue Account (HRA) budgets and rent setting for 2025/26, to be considered by Council on 22 January 2025.

1.2 To update Members on the formula for setting rents for 2025/26.

1.3 To propose the HRA rents for 2025/26.

1.4 To propose the HRA service charges for 2025/26.

1.5 To update Members on the 2025/26 HRA budget, incorporating the decisions included in the HRA Medium Term Financial Strategy (MTFS) report that was approved at the Cabinet meeting on the 13 November 2024 and the proposed 2025/26 fees and charges.

1.6 To update Members on further financial pressures identified since the HRA MTFS was approved in November 2024.

2. RECOMMENDATIONS

2.1 That HRA dwelling rents be increased (week commencing 1 April 2025) by 2.7%. This equates to an average increase of £3.23 for social rents, £5.02 for affordable rents and £3.94 for Low Start Shared Ownership homes per week (based on a 52-week year).

2.2 That the 2025/26 service charges are approved as set out in paragraph 4.2.

2.3 That the HRA budget for 2025/26, set out in Appendix A, is approved.

2.4 The 2025/26 growth options as set out in section 4.4 are approved.

2.5 That the additional repair pressures and subsequent financial growth as set out in 4.4.7 are noted.

2.6 That the 2025/26 Fees and Charges as set out in Appendix B are noted.

2.7 That the revised minimum levels of balances for 2025/26 shown in Appendix C are approved.

2.8 That Members approve the Rent Increase Equalities Impact Assessments (EqIA) appended to this report in Appendix D and the Rent Flexibility EqIA in Appendix F.

2.9 That Members approve the Aids and Adaptations Policy Equalities Impact Assessments appended to this report in Appendix E.

2.10 That the contingency sum of £500K, within which the Cabinet can approve supplementary estimates, be approved for 2025/26 (£400K in 2024/25) as set out in paragraph 4.9.4.

2.11 That the decisions taken on recommendations 2.1 – 2.10 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.

2.12 That key partners and other stakeholders are consulted and their views considered as part of the 2025/26 budget setting process.

3. BACKGROUND

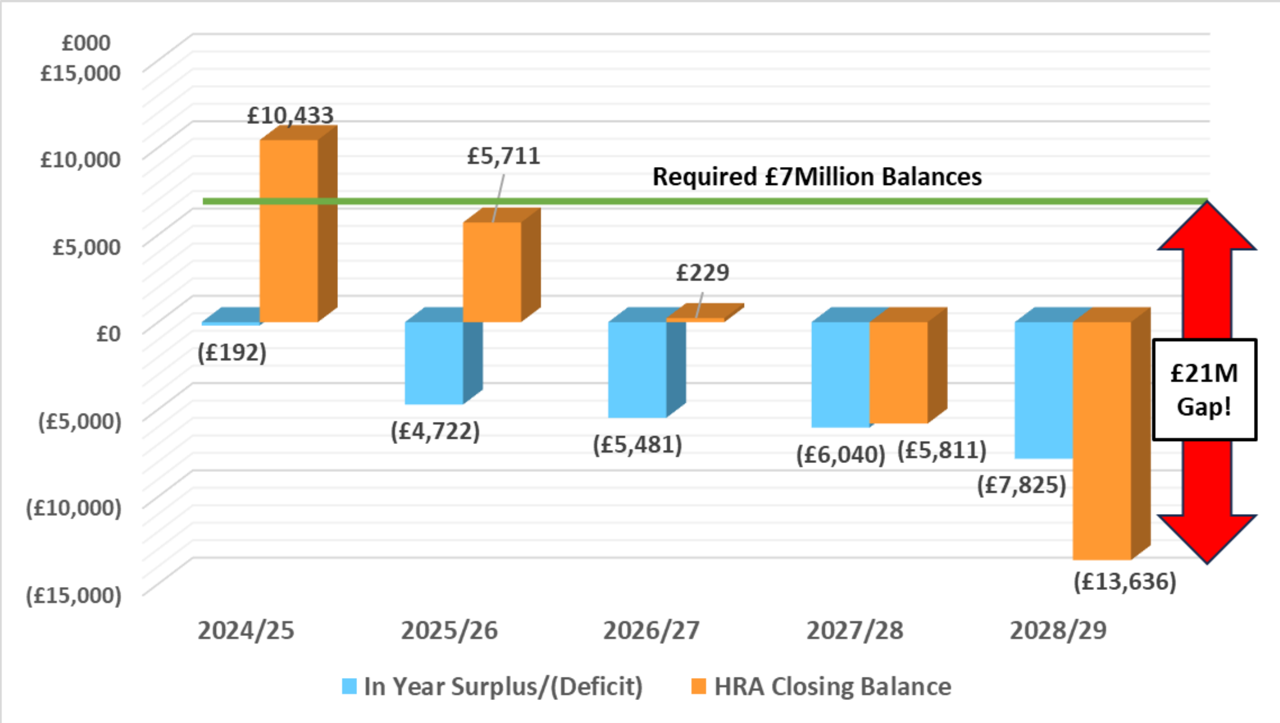
3.1 The HRA is a legally ring-fenced account that records the income and expenditure relating to the operation of the Council’s housing stock. The main costs in the HRA relate to management, maintenance, depreciation (used to finance capital works) and interest on loans. This is primarily funded from 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. The Council is required by law to avoid budgeting for a deficit on the HRA (Local Government and Housing Act 1989, Section 76).

3.2 The latest updated Business Plan went to Executive in November 2023 and underpins the Council's key housing priorities for Stevenage as set out under 'More Social, Affordable and Good Quality Homes (MSAGQH)', one of the five strategic priorities of the Making Stevenage Even Better 2024-2027 Corporate Plan.

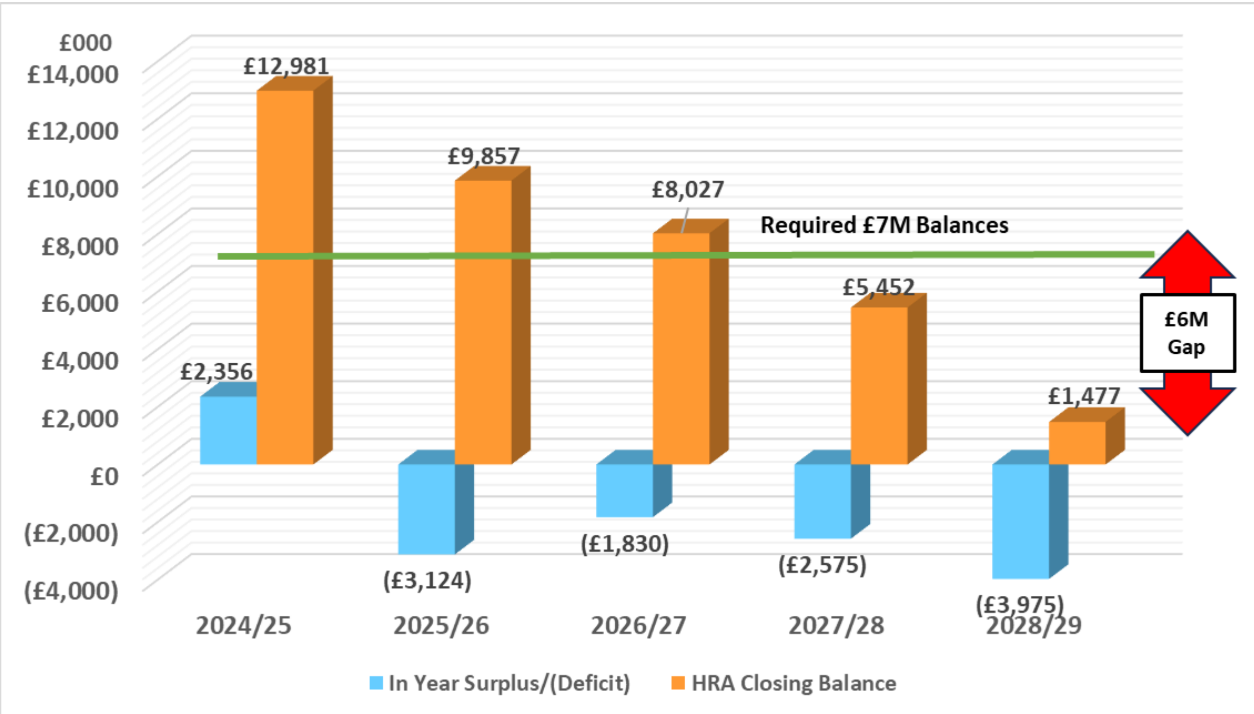
3.3 The table below. provides a summary of the overall commitments set out at the last comprehensive review of the HRA Business Plan in 2023/24.

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

3.4 Members received an update on the Business Plan at the November 2024 Cabinet, the Medium-Term Financial Strategy for 2024/25 to 2028/29. This update highlighted that, since the previous year's Business Plan, changes to several national and local policies and subsequently identified financial pressures had resulted in a significant funding gap over the next five years needing to be addressed, and this is summarised in the chart below.



3.5 The MTFS report recommended a number of cost reduction and income generating proposals, which were approved, and these have been incorporated into the draft HRA Budget Setting and Rent report for 2025/26 (summarised in paragraph 4.4.1) which reduced the funding gap from £21Million to £6Million over the five-year period.



3.6 The funding gap identified above (to achieve a position closer to the minimum balance requirements by the end of the MTFS), meant that the savings target for the HRA has been increased from the business plan target of £500K per annum to circa £1Million per annum from 2026/27. If the savings target identified was achieved HRA balances would be £7.053Million by end of 2028/29, or at the recommended level of minimum balances.

3.7 Since the November 2024 MTFS report, further pressures have emerged which relate to:

- Increased cost of subcontractors for response repairs which are currently being assessed and further information is included at paragraph 4.4.7.
- The 2024 Autumn budget statement may increase costs if increased employers National Insurance rates (NI) contributions are not funded through additional grant, this is estimated to be £285K for the HRA. This could impact costs either directly through staffing budgets or through recharges to the HRA from GF support services costs increasing from NI changes.

<u>Regulator of Social Housing Inspection</u>

3.8 On this Cabinet agenda is a report setting out the judgement of the Regulator of Social Housing inspection that took place earlier in the year. This report will outline the areas of improvement, with the existing improvement plan already factored into this budget report. However, the Council will receive a Provider Improvement Plan that will be agreed upon with the Regulator during quarter four. Any additional pressures arising from the plan will be reported in the final HRA Rent Setting and Budget report, which will be presented to Cabinet/Council in January 2025.

3.9 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 31st October 2024 is summarised in the table below. The average rents for 2025/26 are based on current housing stock and any right to buys, or new schemes coming on stream after this date, may change the average rent per property type.

Stock Numbers at 31/10/2024	Social	Affordable	Sheltered	Shelt. Afford	LSSO	Homeless	Total
Number of Properties	6,804	66	825	18	79	205	7,997

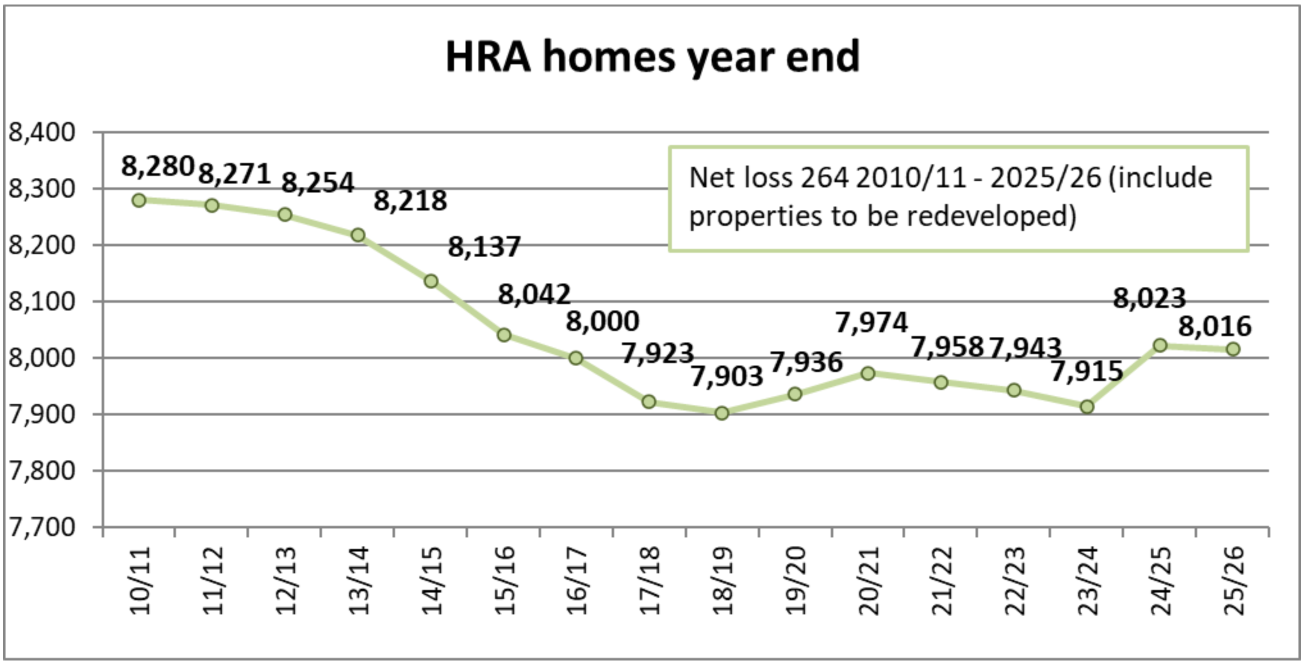
4.1.2. For 2025/26 rent has been set in accordance with the current Rent Standard of September CPI plus 1 %. The September CPI was 1.7% meaning rents will increase by 2.7%.

4.1.3. The proposed average rents per week for 2025/26 are set out in the table below, based on a 52-week year and the current housing stock in management.

Average Rents 2025/26	**LSSO**	**Increase/ (decrease) %**	**social**	**Increase/ (decrease) %**	**Affordable**	**Increase/ (decrease) %**
Average Rent 2024/25	£146.10		£119.06		£185.78	
Add rent impact 2025/26	£3.94	2.7%	£3.21	2.7%	£5.02	2.7%
Total 52 wk Rent 2025/26	**£150.04**		**£122.27**		**£190.80**	

4.1.4. The 2025/26 net rental income increase is estimated to be £1.9Million, which includes the estimated impacts of right to buys, expected new properties and properties taken out of management (awaiting redevelopment). This is consistent with the numbers used in the MTFS.

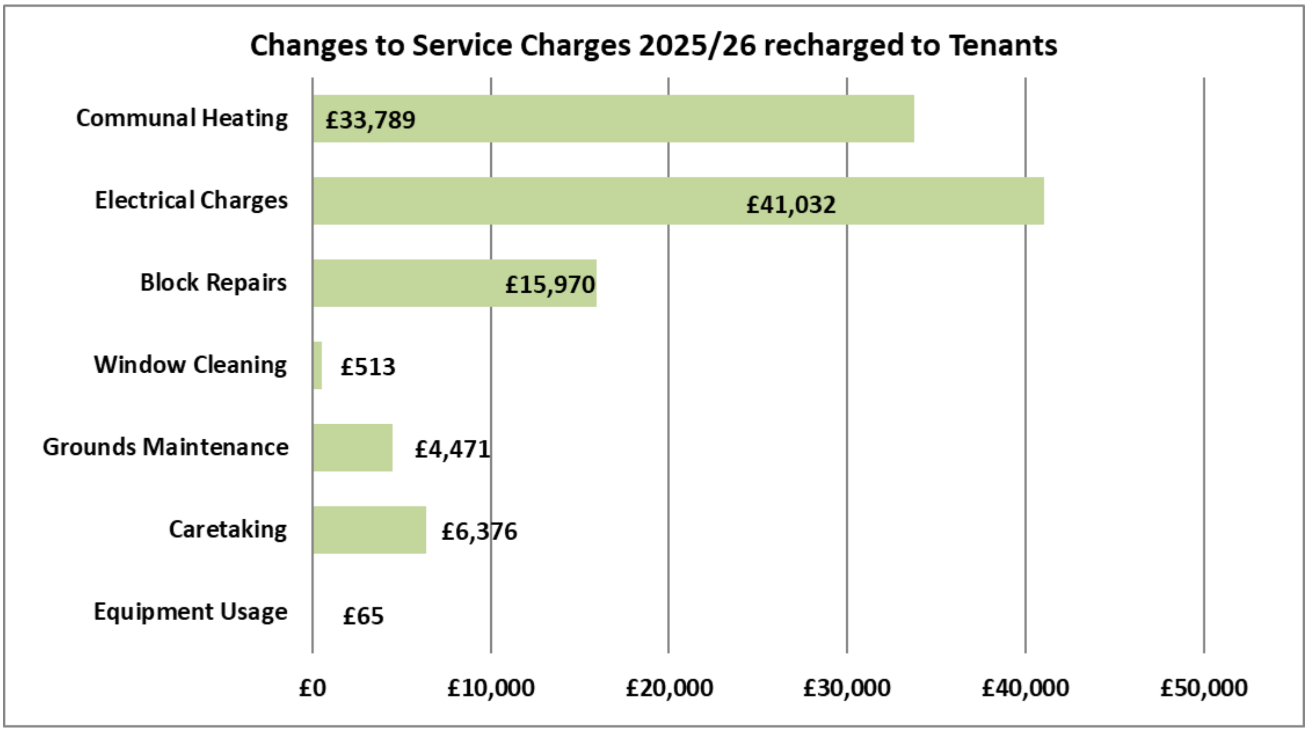
4.1.5. The total number of Council homes is estimated to have reduced by 264 between 2010/11 and the end of 2025/26 (based on the net impact of RTBs, new homes and homes awaiting development). The forecast numbers for 2025/26 reflect the impact of new developments and acquisitions compensating for RTB sales. They also take into account the projected impact of the lower discount, detailed in paragraph 4.8.2.



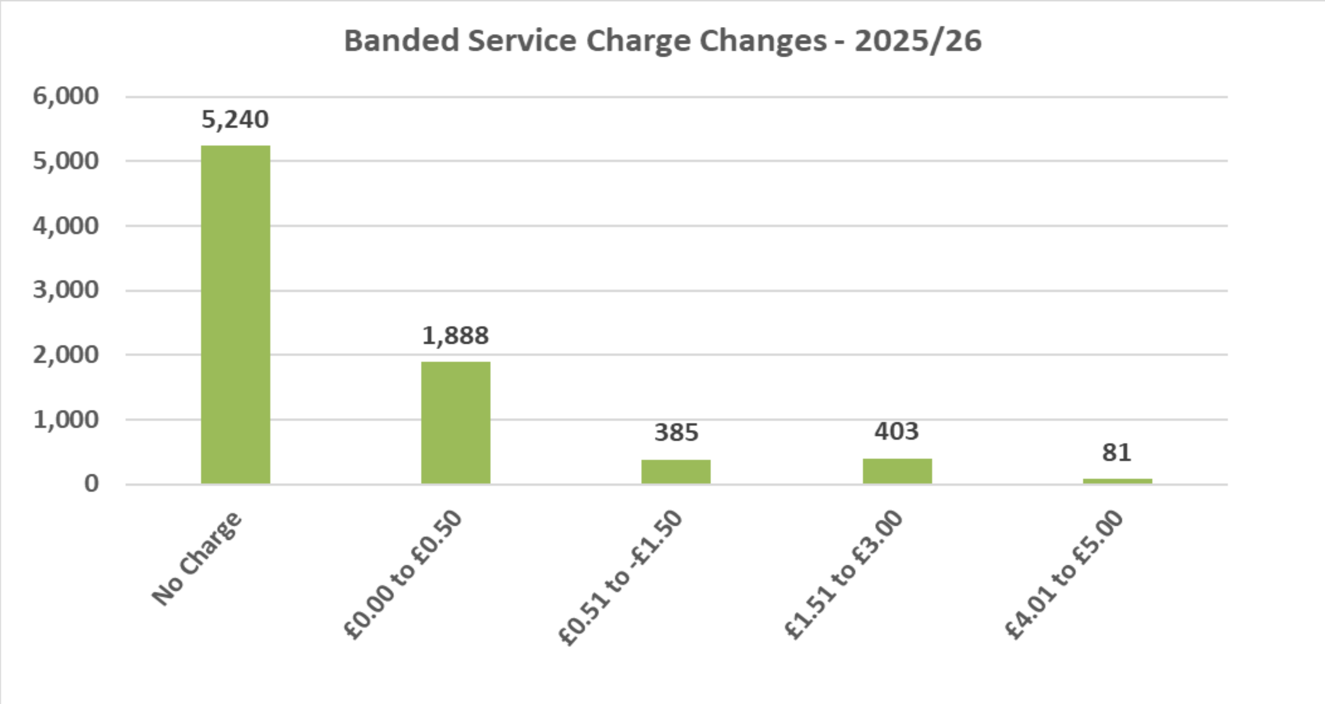
4.2 Service Charges 2025/26

4.2.1. Service charges are calculated on an individual block basis for 2,757 properties, (2024/25 2,834) or 34% of current SBC tenanted properties.

4.2.2. Service charges are not subject to a 2.7% rent increase but are based on cost recovery or actual cost. So, for 2025/26, service charge costs will increase with inflationary pressures and changes in usage. The chart below identifies the changes between 2024/25 and 2025/26 for service charges. The estimates are based on the projected budgeted costs for 2025/26, with the exception of block repairs, which are 'smoothed' over a five-year period to eliminate individual in-year spikes in repairs spend. The graph illustrates that energy prices are still expected to cause the largest increase year to year but are still much lower than the exceptional spike in prices seen in 2022/23. These changes are in line with the forecasts included in the MTFS.



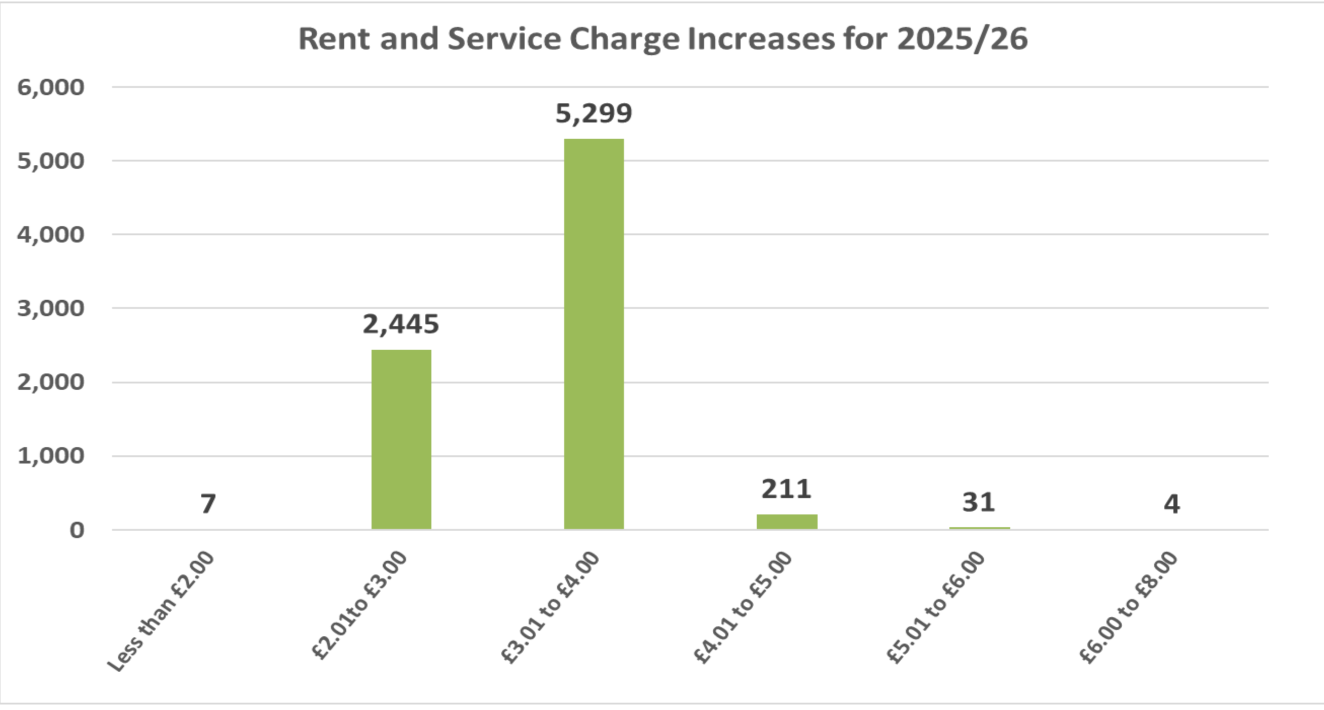
4.2.3. The spread of service charge changes for all tenants in 2025/26 is shown in the chart below, including utility charges and communal heating schemes that are not eligible for housing benefits. However, 5,240 (66%) of homes do not have service charges, of the 2,757 properties that are liable 1,888 (68%) will have increases of less than 50p per week. The remaining properties with higher increased costs, have been driven by utility cost increases which are still projected to be higher than general inflation.



** note increase per week*

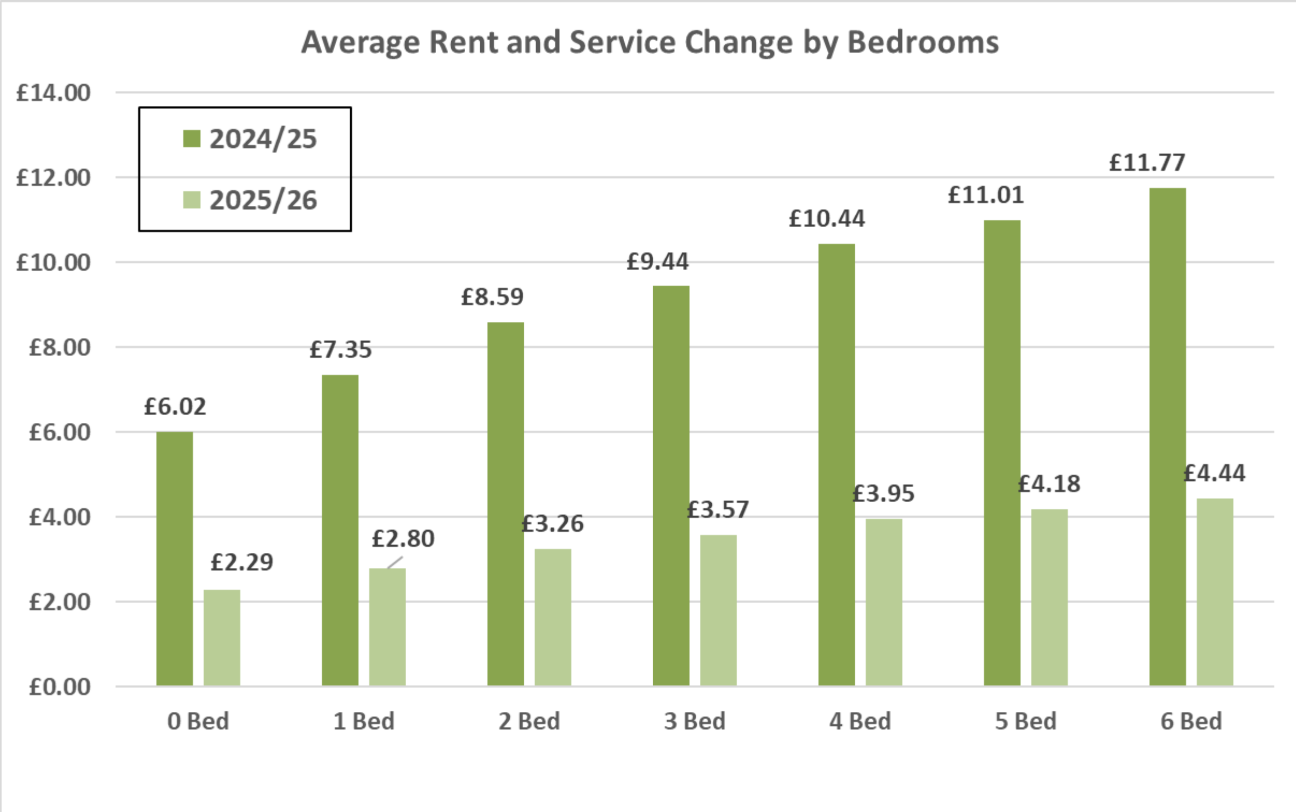
4.3 **Rents and Service Charges**

4.3.1. The impact of the 2025/26 rent increase and service charges is that 7,751 homes, or 97%, receive a weekly rent and service charge increase below £4.00 per week. This increase is substantially less than last year and is due to the lower September CPI level of 1.7% compared to 6.7% last year. There are 246 properties with an increase over £4 per week and 84 of these are affordable rent properties. The full distribution of the 2025/26 rent and service charge changes are summarised in the chart below.



**note increase per week*

4.3.2. The average rent and service charge increase by bedroom size has also been calculated and summarised in the chart below. This also illustrates the much lower rent increase due to the September CPI figures.



4.3.3. 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. The latest Office for National Statistics (ONS) data shows that private sector rents in Stevenage have increased substantially from last year. A three-bedroom private sector rental property costs an additional 142%, (2023/24, 95%) more per week than an SBC council home and 34% more than the affordable let properties, (2023/24 8%).

	SBC Social Rent	SBC Affordable Rent	Median Private Rent	Local Housing Allowance	Median % v SBC Social	Median % v SBC Affordable
1 Bed Property	£105.65	£156.66	£216.46	£176.36	105%	38%
2 Bed Property	£122.13	£201.65	£280.15	£224.38	129%	39%
3 Bed Property	£135.79	£245.11	£329.08	£287.67	142%	34%
4 Bed Property	£149.88	£287.13	£456.69	£368.22	205%	59%

Private rent Data from ONS as at October 2024 and the Local Housing Allowance is based on current rates. Please note the SBC rents are April 2025 prices and the private rents October 2024 prices.

4.3.4. 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 included in the HRA

4.4.1. The following growth items have been included within the 2025/26 HRA budget.

Included within the November MTFS report:

4.4.2. **New posts re Regulatory Demands £103K –** This growth was approved by Council in July 2024 in relation to the new regulatory requirements aiming to improve digital services and data quality for the Housing Revenue Account and enhance performance and resident engagement in response to new legislation and regulations from the Regulator of Social Housing.

4.4.3. **Void New Delivery Model £704K –** This growth was approved by Cabinet in October 2024 as a new delivery model for void works, aiming to improve performance and process management.

4.4.4. **Insurance premiums £37K -** The latest insurance renewal schedules show a cost pressure for 2025/26. The budget allowed for a 5% increase; however, the actual rise was 10%.

From the Autumn Statement:

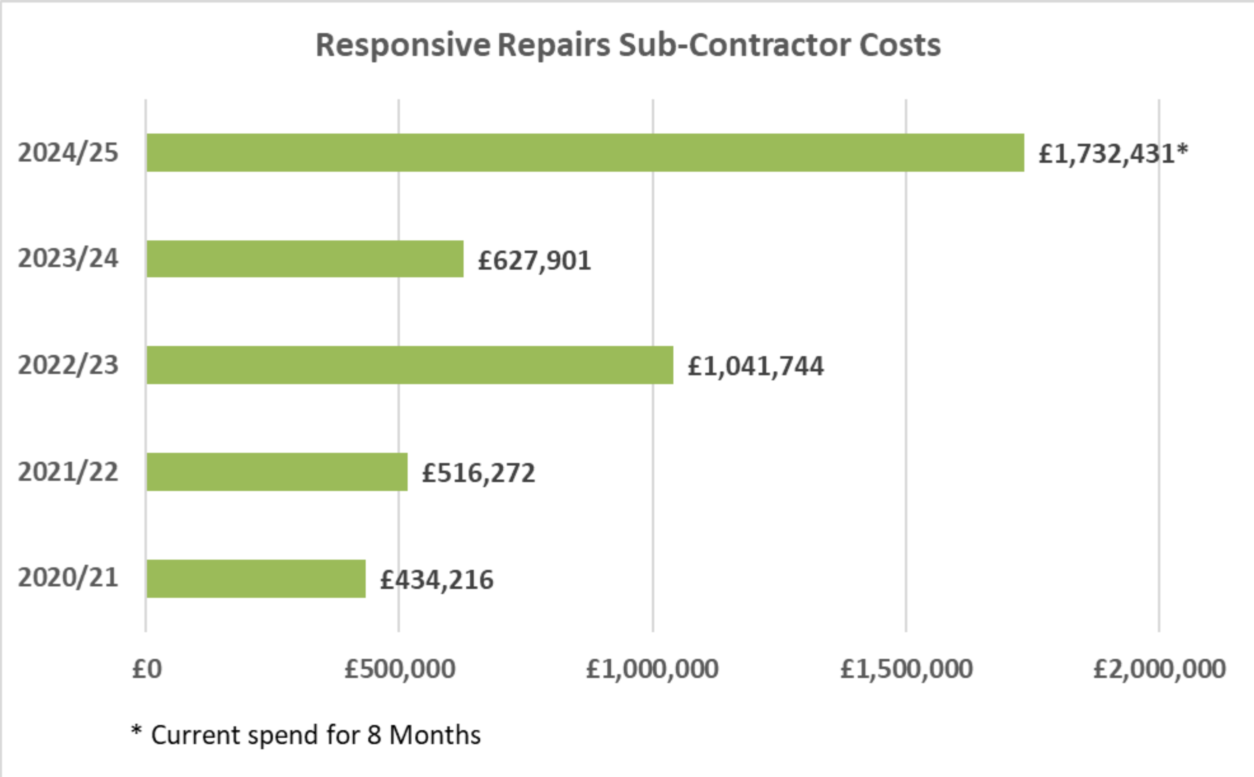
4.4.5. **National Insurance increase in contribution rate net £0 -** On the 30 October the Chancellor of the Exchequer delivered an Autumn Budget Statement and announced an increase in the Employer's National Insurance contributions rate from 13.8% to 15.0% from April 2025 and a reduction to the threshold which employers become liable to pay National Insurance to £5,000. All eligible employers will now benefit from the National Insurance employment allowance, which itself will be increased from £5,000 to £10,500. The impact on these changes to the HRA will be circa £285K and there may also be further cost pressure for the HRA once the final recharges from the General Fund have been completed, particularly with the impact of higher NI costs, if not fully compensated for.

4.4.6. However, the Government have said that any increase will be offset by grant settlement to the Council, and this should neutralise this increase. This draft HRA budget assumes that this will be achieved, but if this is not the case there will be a pressure that will need to be addressed in the Final HRA Budget report to Cabinet in January.

Further new pressures:

Responsive Repairs and Disrepairs Demand

4.4.7. Since the MTFS was presented to the November 2024 Cabinet meeting, a significant emerging budget pressure has been identified relating to responsive repair costs. It was recognised earlier in the year that there was an increase in demand and an additional £500K was added to the budget in the report to the July 2024 Council meeting. However, there has been a further increased level of demand in the number and cost of contracted specialist maintenance jobs, including those where the Council has a statutory responsibility to act. The graph below illustrates the unprecedented increase in costs during this financial year. The current projection for these budgets could be as high as £2Million to cover current and future works over the remainder of the financial year. This would be in addition to the current working budgets of £15.2Million for all revenue maintenance and repair work.



4.4.8. The main two areas of pressure are on disrepair claims and roofing and guttering work, but there are also increased levels of demand for works on windows and doors, drainage works and fencing repairs. While the additional cost associated with administration and compensation were included in the approved growth (July 2024 council) for disrepair claims, the higher costs of work relating to these complex cases was not accounted for and this has meant much higher expenditure in completing the actual work associated with these claims.

4.4.9. A series of mitigations are either already in place, or are being enacted, to control and reduce the cost of this work moving forward and these include:

- Maximising the number of jobs carried out by the in-house team and investigating areas currently completed by sub-contractors that they would be able to complete.
- Continue to exercise tight spending controls on sub-contractor work and any requested variations to orders.
- Carry out further trend analysis to identify ongoing areas of concern and to produce a more accurate estimate of the impact of this pressure on the current and next year's budget.
- Ensure that all major repair elements that may have been included within the sub-contractor payments have been removed and counted within the major repair budgets.

4.4.10. Work is ongoing to analyse the current demand and estimate the ongoing cost pressure on this service for 2025/26, but this has not been completed in time for the draft budget report. However, this will be included in the final HRA budget report due to Cabinet in January.

4.4.11. Through these mitigations and the clearance of any historic work during 2024/25 it is anticipated that costs in next year will be significantly lower than the current projected outturn. However, it is likely that the underlying base cost of the service has increased. This will mean that the 30-year HRA Business Plan model will need to be amended to reflect the service cost levels and balance them against the other spend areas in the HRA. It is intended that this work will be completed during the last quarter of the current financial year, to be presented to Cabinet in the first quarter of 2025/26.

4.4.12. Finally, there may also be further cost pressures for the HRA once the final recharges from the General Fund have been completed, particularly with the impact of higher NI costs if not fully compensated for. This work will be included in the final budget 2025/26 report to Cabinet in January 2025. The current assumptions within the draft budget, is a recharge from General Fund of £8.7Million. It is anticipated that the final position for recharges may be higher and therefore a further pressure placed on the HRA.

4.5 Savings Options

4.5.1. Due to the cost pressures identified in the HRA MTFS and before further exacerbated by higher anticipated repair costs (as set out above), the HRA required savings to be identified to avoid running out of balances as set out in the November 2024 MTFS report. The savings proposed for inclusion in the HRA are a combination of options included in the November MTFS 2024 report and the HRA share of the Balancing the Budget savings options also presented to the November Cabinet meeting and are as follows:

Capital Changes reducing revenue contributions to capital in the HRA:

- **Changes to New Build for Social Housing** – there are two changes to the current programme resulting in a saving of £1.1Million over the MTFS. These were additional grant from the Local Authority Housing Fund of £325K and a £822K reduction from the asset review budget because this work can be incorporated in the development project appraisals within the current programme.

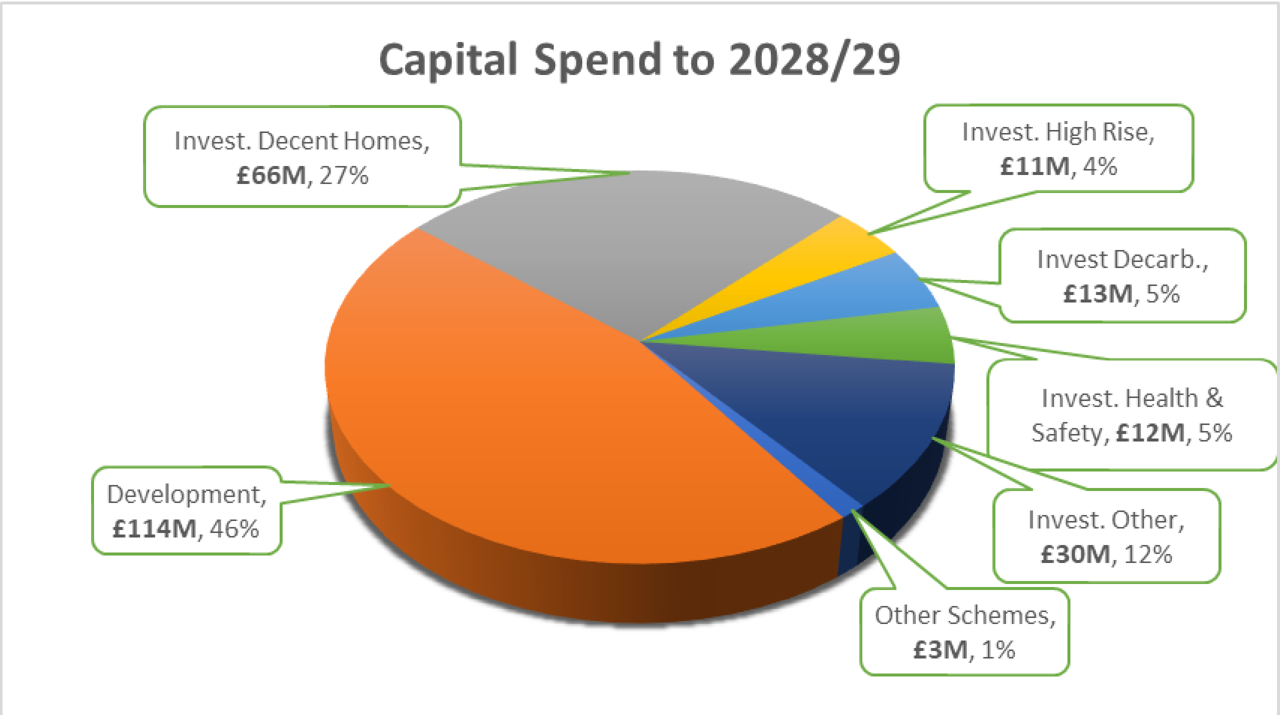
- **Decarbonisation** – Members agreed to a lower cost programme in the MTFS, however this still means a bid for 500-550 homes under the current Government's grant scheme. This reduces the HRA capital costs from the current projection of £20.7Million to a revised cost of £13.3Million.

- **Aids and Adaptation** - While demand is likely to remain high given the ageing demographic of tenants, this type of spend needs to be balanced against affordability and other unavoidable areas of investment like fire safety measures which cannot be reduced. Factors that have been taken into account when proposing this include offering more suitable homes to tenants, such as Independent Living schemes and/or already adapted homes. In addition to existing stock, the housing development programme is also delivering new homes targeted at tenants with specialist needs.

The Community Select Committee will be reviewing the existing policy in due course and the demand and budget will be closely monitored during 2025/26 by the Executive Housing Working Group, as well as through the quarterly budget monitoring process. In the event that the budget is not sufficient it will be reviewed and addressed as part of subsequent HRA updates. However, based on the need to make cost reductions the annual budget provision for adaptations has been reduced to £550K per annum. This means a saving to the HRA of £2.7Million over a four-year period.

- **Other Capital Changes** - Alongside these capital programme changes the funding for the programme has also been reviewed and this has allowed a further £1.1Million reduction in funding costs across the MTFS 2024/25 to 2028/29.

4.5.2. Members should note that even with the level of proposed capital savings there is still a significant investment programme for existing and new housing stock. The graph below shows a medium-term capital programme that will invest £249Million up to 2028/29. This includes £114Million on new housing stock and £132Million on existing housing properties.



4.5.3. <u>Revenue Changes as follows:</u>

- **Tightening void procedures and cost control** – A review of voids works is currently underway reviewing specification raised against works subsequently completed. This measure, together with a new procurement, means officers consider that the average cost budgeted for a void can be reduced, while still ensuring the correct level of works are done.

Early estimates suggest potential annual savings of around £500K and these have been included in the HRA over the medium term. These savings are based on the average cost of voids works reducing from circa £8.2K in Quarter one to around £5K in Quarter three. Sustaining this trend will be achieved through continued tighter controls on the specification of works, as the client/contractor model is fully established. Through the tenancy audit programme and pre-termination visits it is further expected that this will have a positive impact on the condition of properties when they become void which will mitigate against the higher average void costs experienced over the last 12-18 months. However, costs will be closely monitored to understand what is driving spend and what other mitigations could be put in place to avoid high void costs (and associated rent loss from longer relet times).

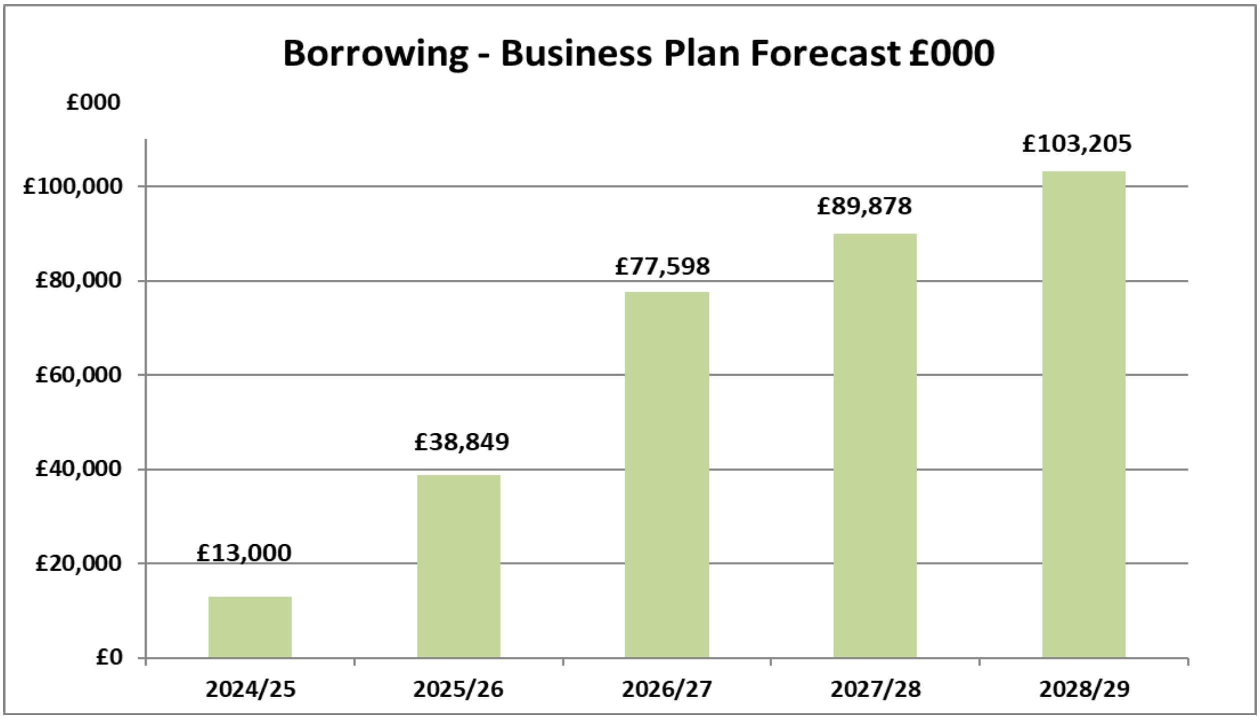
- **Rent Flexibility Level** – the current projected rental income does not meet the investment need required for the Council stock. Under current regulations the Council can implement rent flexibility, subject to consultation taking place. This allows rents to be set at up to 5% above the formula rent for general needs properties and up to 10% for sheltered accommodation. This would happen only when a property becomes vacant (void) and any works have been completed, to ensure the property meets the decent homes standard and is ready for re-letting to a new tenant. Current tenant's rents would not be changed. This would potentially raise £50,000 in 2025/25 and £800K over the MTFS period up to 2028/29.

- The remaining £17,000 is the HRA share of the "Balancing the Budget options" to November 2024 Cabinet.

4.6 Borrowing

4.6.1. Based on current forecasts, new loans totalling £13Million and £25.8Million are expected to be taken in the current and next financial years for 2024/25 and 2025/26. 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 2024/25 and 2025/26 is estimated to be £8.2Million and £9.9Million respectively.

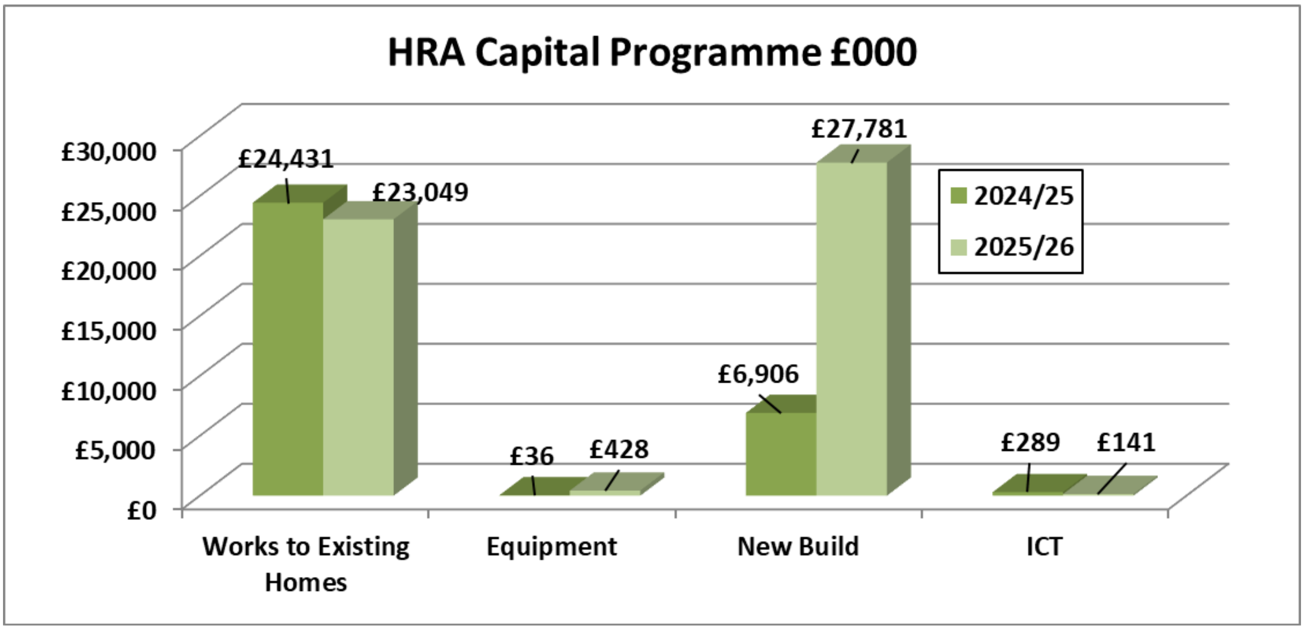
4.6.2. Currently interest rates have continued to stay higher than the unusually low levels seen in the past decade. For next year the Draft Budget assumes an average rate of 4.4%, with the HRA Business plan assuming a long-term average of 4%. The government allows HRA's a preferential rate for borrowing from the PWLB and this discounted period was extended in the recent Autumn Statement, lasting until 31 March 2026 The discount is 40basis points lower than the certainty rate which the Council can access for General Fund borrowing requirements.



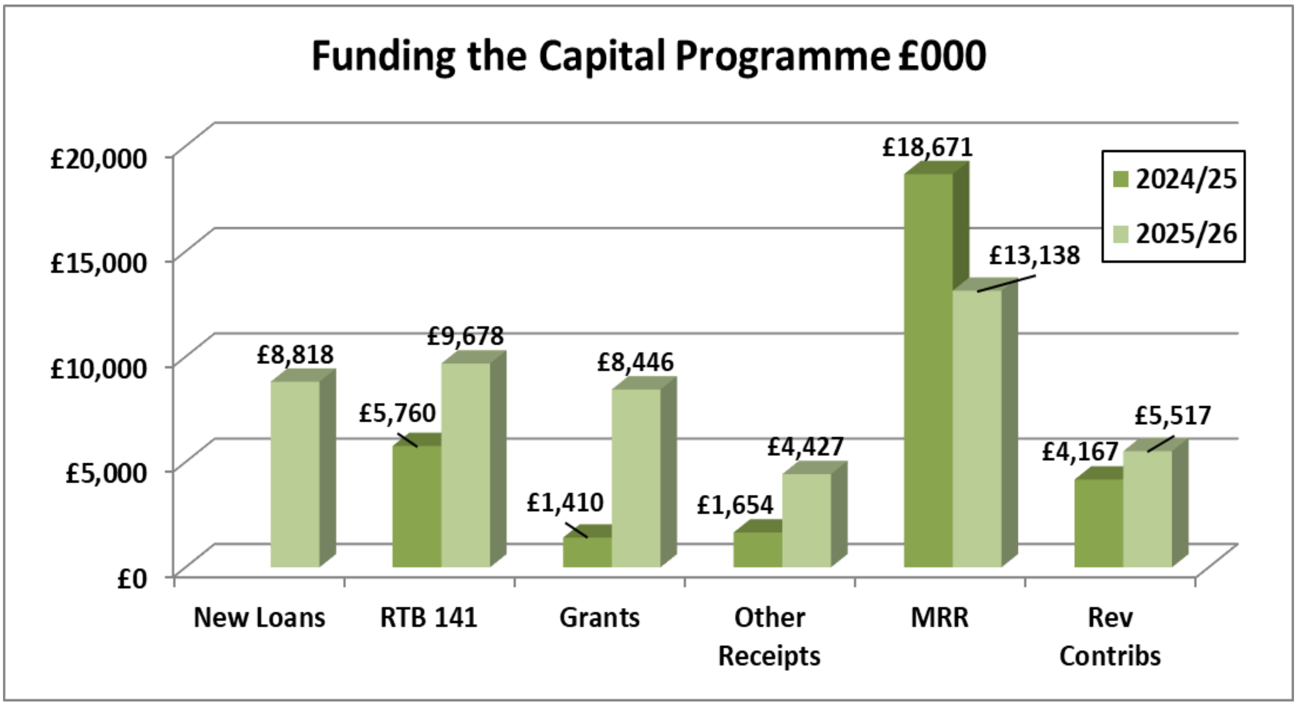
4.6.3. This graph shows the cumulative borrowing projected in the HRA MTFS. The debt to be taken for 2024/25 and 2025/26 is £38.9Million, of which £30.0Million is converting internal borrowing to external debt.

4.7 Capital Expenditure

4.7.1. The table below shows the revised capital programme for 2024/25 and the proposed spend for 2025/26 and this is incorporated within the pie chart figures in paragraph 4.5.2 showing total commitment for capital up to 2028/29 of £249Million. The final HRA Capital programme will also be included in the 2025/26 Capital Strategy to February Council.



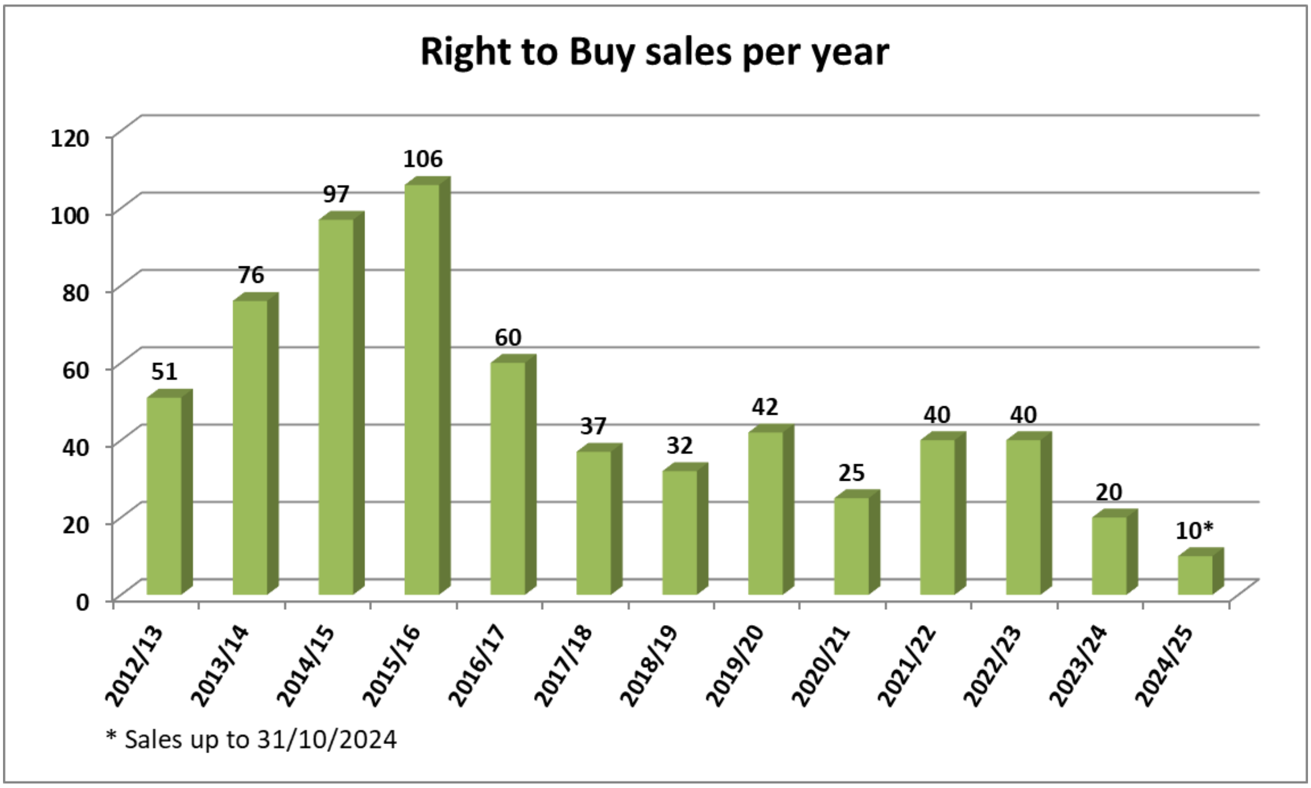
4.7.2. The majority of the capital expenditure relates to work on existing homes and the new build programme. The capital works on the housing stock is projected to be in line with the current year and the projected spend on new schemes is in line with the development programme included in the Medium-Term Financial Strategy. 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 (MRR) (funded from depreciation charges to the HRA) and the new build costs from loans and receipts.



4.8 **Use of One for One Receipts**

4.8.1. The Council has an ambitious development programme and is currently completing a major redevelopment scheme at the Kenilworth Road site, a new specialist building for temporary accommodation and is developing plans for a major neighbourhood centre renewal project. 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.

4.8.2. Currently sales of RTB properties remain historically low, with only ten sales in 2024/25. This has been reflected in the forecast for this year that has been reduced from 35 to 15, based on current applications, time to complete the sale and the conversion of applicants to actual sales. However, there is likely to be a surge in RTB sales in 2025/26 due to the new government legislation to reduce the level of eligible discounts. The changes are effective for all applications after 21 November 2024, which resulted in a significant increase in applications between the Chancellors budget announcement and the deadline. As a result, the HRA assumes 50 RTB for 2025/26 up from the 35 originally expected.



4.9 **Draft Budget Proposals**

4.9.1. The Draft 2025/26 HRA budget is estimated to be a net deficit of £3,243,420. The table below shows the main movements in the budget and includes growth proposals for 2025/26 detailed in 4.4 above. However, this does not include any allowance for the emerging budget pressure described in paragraph 4.4.7 and this will be addressed as part of the final budget report.

4.9.2. The table below shows a slight increase of £120K in the expected deficit position for 2025/26 from the MTFS forecast. This relates to assumptions made regarding utility costs and their recovery from service charges that have been revised while compiling the draft budget.

Summary of 2025/26		
Working Budget 2024/25		**(£2,356,130)**
Adjusted for "one off" and non-carry forward items	(£2,223,410)	
Revised Base Budget from 2024/25		**(£4,579,540)**
Increases in Income/Reductions in Expenditure:		
Additional Rental Income and other fees and charges	(£2,003,870)	
Savings achieved	(£567,000)	
Interest on Balances	(£263,910)	
Refund of Increase in National Insurance Contributions	(£285,370)	
		(£3,120,150)
Increases in Expenditure:		
Increase in loan borrowing interest	£1,637,360	
Increase in Depreciation trf to MRR	£382,660	
Transfer from Earmarked Reserves	£5,421,000	
Increase in Revenue Contrib to Capital	£1,349,590	
Net Salary Increases for Inflation/NI/Re-grading/Pensions	£738,470	
MTFS Growth	£844,770	
Utility Inflation	£108,940	
Contract Inflation	£66,090	
General Inflation	£171,320	
Net change in Recharges to/from General Fund	£222,910	
Other minor changes		
		£10,943,110
Total Net Changes:		**£7,822,960**
Draft HRA 2025/26 budget		**£3,243,420**
MTFS Projected Draw Down of Balances		**£3,123,570**
Variance to MTFS Projection		**(£119,850)**

4.9.3. After this budgeted draw down from reserves the table below shows that this will leave £9.7Million in balances. This is above the risk assessed minimum level, but the reserves are required to cover current additional service pressures and forecast deficits in the MTFS.

4.9.4. A risk assessment of balances has been completed and is in Appendix C to this report. This is slightly lower than the level indicated in the MTFS report from November and is shown in the table below. The HRA balances currently exceed this level for the reasons set out in paragraph 4.9.3. There is also a recommendation to increase the Cabinet limit on supplementary estimates from £400K to £500K, recognising this limit has not changed for a number of years of high inflation and the current volatility in demand led service areas.

HRA Balances:	2024/25 £	2025/26 £
HRA Balance 1 April	(10,584,486)	(12,940,616)
Use of balances in Year	(2,356,130)	3,243,420
HRA Balance 31 March	**(12,940,616)**	**(9,697,196)**
Minimum Balances	(6,262,520)	(6,262,520)
Forecast deficits and service pressures	(6,678,096)	(3,434,676)

4.10 Consultation

4.10.1. The proposals in this paper are the result of detailed consultation with Cabinet Members, Members at the Executive Housing Working Group on the 7 November 2024 (where it was noted), Senior Executives and service managers across the Council. They also reflect customer priorities identified through the Tenant's Survey.

4.10.2. Following the MTFS report approval at the November Cabinet, Overview and Scrutiny raised concerns around the reduction in funding for Aid and Adaptations budget from £1.05M to £0.5M in 2025/26. Members were concerned with the level of demand versus the reduced budget. Officers responded to by stating that the aids and adaptation works would be applied in line with the policy and that for complex works/cases alternative accommodation more suited to a tenant's needs may be available. However, if the budget was insufficient this would be addressed through the budgetary monitoring process with a view to increase the level and seek alternative savings.

4.10.3. The Government is currently seeking views (closing on 23rd December) on a proposed five-year rent settlement, which would allow housing associations and stock-owning council to raise social rents by the Consumer Price Index (CPI) plus 1% each year, in line with the current Council MTFS and Business Plan.

4.10.4. There will also be consultation with tenants and relevant stakeholders regarding the implementation of rent flexibility, as approved in the MTFS Cabinet report in November 2024.

4.10.5. Further consultation will take place following this Cabinet meeting, including consideration by relevant Member committees before the proposals are presented to Council for agreement in January 2025.

5. IMPLICATIONS

5.1 Financial Implications

5.1.1. Financial implications are included in the body of the report. However, if the additional pressure (as highlighted in paragraph 4.4.7) is realised then higher savings on top of the £1M per annum from 2026/27 would be needed and this is illustrated in paragraph 5.4.5 below.

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

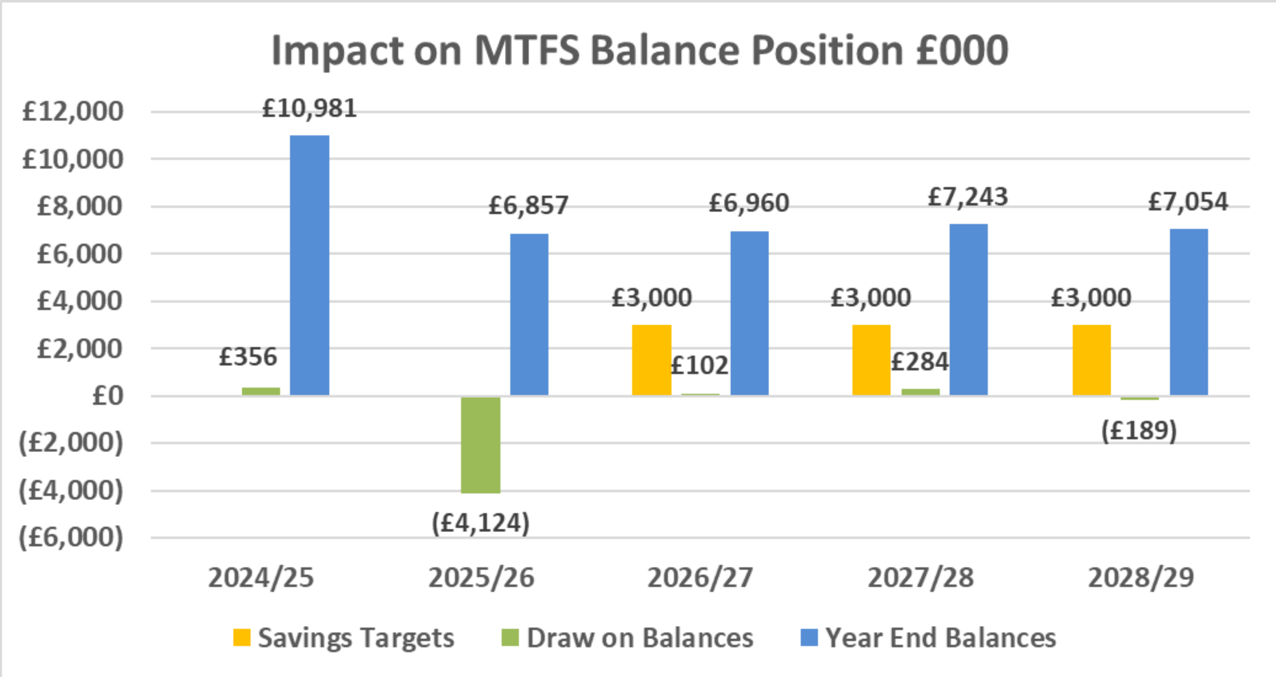
5.4.1. Historically the ring-fenced account has relied almost solely on rent income to finance both revenue and capital works. Rent levels are set and regulated in accordance with Government policy and do not allow the Council any significant discretion to reflect local needs and priorities. In recent years the previous Government had put in place a series of restrictions on rent setting, including four successive 1% reductions and a rent cap in 2023/24. These changes have resulted in the loss of hundreds of millions of pounds from the Council thirty-year business plan. It should be noted the current Government is looking to put a longer-term agreement on rents in place. However, because rents are based on the CPI+1% formula if inflationary pressures from repairs and utilities and regulatory demand are higher than rent increase this will lead to further pressures for the HRA.I.

5.4.2. Currently one of the continuing risks to the account is a large rise in arrears. These have increased, in part as a result of tenants switching from housing benefits to Universal Credit, but also due to the post Cost-of-Living crisis.

5.4.3. 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. The impact from the Housing Inspection is still to be identified and this will be reported in the Final Budget report for January if additional resources are required.

5.4.4. 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.

5.4.5. The latest revision of the HRA medium term financial position included a required savings targets of £1Million a year between 2026/27 to 2028/29. However, the emerging additional pressures detailed at paragraph 4.4.7 will require additional savings to be found. The graph below illustrates the impact on the current forecasts of a £2Million pressure in the current year, followed by a £1Million pressure over the following years. If realised it would require savings to increase to £3Million a year to meet existing targets and would be an area of high risk for the HRA in the medium term. In reality this level of savings would not be achievable without significant cuts to both capital and revenue. As stated in paragraph 4.4.11, the current and emerging pressures on the HRA will require a re-write of the Business plan after the budget process has completed. This is very likely to indicate that savings will be required beyond the medium-term position and the structural financing of the HRA will need to be adjusted to accommodate any ongoing operational pressures.



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 2025/26 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 2.7% per annum, including the mitigations that will be implemented to lessen the impact wherever possible.

5.5.4. Attached as Appendix E is an EqIA for the budget impact on the Aid and Adaptations policy.

5.5.5. Attached as Appendix F is an EqIA for the impact of exercising Rent Flexibility in 2025/25 as part of the budget proposals.

5.6 Climate Change Implications

5.6.1. The anticipated revised decent homes standard and the targets set within the HRA Asset Management Strategy will continue to improve the environmental performance of the existing stock. The Housing Asset Management Service is committed to review its approach to reducing the impact of the housing stock on the environment through actions set out in the HRA Asset Management Strategy and this will in turn contribute to the actions within the Council's Climate Change Strategy and Action Plan, subject to affordability of measures required and availability of grant funding.

5.6.2. Future housing developments will consider the environmental performance of the designs and features and look to introduce technologies and materials that help to improve the environmental performance of the buildings.

6. BACKGROUND DOCUMENTS

BD1 Final Housing Revenue Account (HRA) Budget Setting and Rent Report 2024/25 - January 2024 Council.

BD2 Housing Revenue Account 2024/25 and On-Going Cost Pressures – July 2024 Council.

BD3 Future Voids Delivery Model – October 2024 Cabinet.

BD4 Housing Revenue Account MTFS Review – November 2024 Cabinet.

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

Appendix E - EQIA for the Aids and Adaptations Policy

Appendix F - EQIA for Rent Flexibility