Board/Committee:	Housing Board
Date of meeting:	17th January 2024
Title:	Business Plan Financial Model Update and Council Dwelling Rents
Author:	Borough Treasurer and Housing Services Manager
Status:	For Decision/Recommendation to Full Council

Purpose

This report considers the Housing Revenue Account (HRA) Business Plan Financial Model including the revised 2023/24 budget and the 2024/25 budget including recommendations on rent levels for next year.

It also provides updates for members on the latest information with regard to policy changes that impact directly on local authority housing finance services.

Recommendation

That the Housing Board recommends to Full Council that :

i) That Council Dwelling rents increase by CPI + 1% (7.7%) as set out in the Social Housing rent guidance.
ii) The revised HRA Business Plan Financial Model extract (Appendix A) and associated 2023/24 revised budget and 2024/25 Budget (Appendix B) is agreed.
iii) Service charges decrease on average by 2.1%
iv) The rent for all garages increases in line with inflation as agreed in the garage renewal strategy.

1.0 Background

1.1 The Local Government and Housing Act 1989 requires the Housing Revenue Account (HRA) to be maintained as a ring-fenced account and prescribes the debits and credits to be applied to it. The principle items of expenditure within the HRA are management and maintenance costs, together with charges for capital expenditure (depreciation and interest).The majority of this is met from rent and service charge income for dwellings and garages. Since April 2012 the HRA has been self- financing. Under self- financing all income received from rent and service charges are used to manage and maintain the Councils housing stock.

1.2 Recent government interventions have had a permanent negative impact on the HRA. The rent reduction policy of 1% per annum between 2016-17 and 2019-20 reduced income to the HRA by approximately £1.5m a year, although the longer- term impact was significantly higher and was calculated at £40m over 30 years. The rent cap in 2023-24, which limited the increase to 7% was also 4.1% lower than expected. There is no mechanism for the council to claw back the reduction in rental income in subsequent financial years.

In addition to the negative impact of lower than anticipated rent increases, the prevailing economic situation is also forecast to have a negative impact. Inflation rates are still above the Government 2% target which will continue to put pressure on capital and revenue repairs budgets .Inflation was at 6.4% in October 2023 and may put further pressure on HRA resources. There are also continued risks in recovery of high utility costs from tenants and leaseholders.

To be able to invest in the management and maintenance of our homes and maintain the long-term sustainability of the HRA, the Council has reviewed its charges to tenants. The draft Plan now presented, despite the forecasted challenges, maintains an adequate annual surplus providing an appropriate level of in-year financial cover. The new HRA capital programme places a strong emphasis on meeting the needs of the existing tenants and addressing the condition of the existing stock. The Council intends to spend £9.1m in 2024/25 on maintaining and improving our existing stock. This includes a significant sum on rewiring and fire safety of the entire stock (Appendix D).

A stable and reliable policy for rent setting is vital to enable the council to manage the HRA as an efficient and effective long term business .The timescales for the process of varying rents is currently very tight and a delay for any reason could have financial and organisational impacts on the balances within the HRA and the council as a whole.

The HRA budget for 2024-25 is for one year only (Appendix B). There is however an extract from the HRA Business Plan Financial Model detailing predicted income and expenditure levels for the next five years based on a number of assumptions. This can be found in Appendix A of the report.

1.3 The Housing Revenue Account resources are focused on delivering the efficient management and maintenance of existing council owned stock alongside building and acquiring new affordable housing .The Council's housing stock is comprised of 3064 tenanted and 308 leasehold properties as at 30 November 2023 and a rent roll of over £17.7 m for 2024/25.

The report identifies a proposed social rent increase of 7.7%, in line with the Government's current recommendation. Following the rent increase, average weekly rents will increase by an average of £6.80 per week for Social rents and Affordable rents by an average of £11.80.Hostel rents will increase by £13.93 per week.

Service charges have also been reviewed and although there are some increases the majority of properties will see a small decrease with the average charge reducing by 2.1%.

2.0 Report

2.1 The Revised HRA budget for 2023/24 shows an overall decrease in expenditure of £900,000. The following adjustments have been made to the 2023/24 budget :

1. Reduction in management costs of £170,000
2. Decrease in Repairs and maintenance of £34,000
3. Reduction in capital funding of £700,000 due to the postponement of starting some schemes and a prioritising of works on rewiring our stock to bring it up to the required standard. This in turn has meant a reduction in the new kitchen and bathroom programme.
4. There is also an increase in interest on HRA balances of £300,000.

2.2 The HRA budget for 2024/25 shows an increase in rental income of £1.5m due to the 7.7% increase as detailed in the recommendations. Ensuring the HRA has sufficient reserves to enable it to fulfil its commitments is essential to the financial long- term sustainability of the Business Plan. Management costs are budgeted to increase by £600,000 primarily due to the pay award and some reallocation of roles within the Housing Department. Repairs and maintenance and capital costs are also budgeted to increase by £1,000,050 due to the effects of inflation (paragraph 1.2) and some additional funds being made available for some our demand led repairs ,day to day repairs and void costs and the increase in the Rewiring programme.

2.3 An extract from the HRA 30 year Business Plan Financial Model detailing the predicted income and expenditure levels for the next 5 years has been included for reference at appendix A.

The 30-year HRA financial plan contains a long-term assessment of the need for investment in assets, such as new homes development, existing homes acquisition, major works, and other cyclical maintenance requirements, as well as forecasts on income streams such as rents, in line with rent standards, and future developments. The Plan includes the modelling of the revenue and capital implications of all planned work in the HRA to deliver council priorities and provides the basis for understanding the affordability of current capital programme delivery plans and assessing options to ensure a viable HRA over a longer period. It considers the build costs, inflation, exposure to housing market volatility and delivery capacity within the Council. It also includes provision for debt repayment, with the majority of the self- financing loans required to buy out of the national subsidy system still outstanding . The increases in energy costs, inflation and interest rates rises presents a level of challenge and difficulty in delivering our capital programmes now and the viability of our HRA in the medium to long-term.

2.4 The reduction in Grounds maintenance costs has reduced the service charges for the majority of tenants. However, even with these reductions the charges are still higher than historic levels. To help mitigate the impact on tenants, heating charges will be adjusted during 2024/25 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 tenants aren't overcharged.

2.5 The proposed start of the new build programme across the three sites Stoners Close,Glebe Drive and Wheeler Close has been further delayed due to a number of factors. It was initially delayed due to the impact of Covid .During 2021 consultants ECD architects were appointed. A contractor PMC has now been awarded the contract through the Tender process and it is now proposed that the Council embark on a programme of building new affordable rented properties within the Borough to start in the spring of 2024.The draft capital programme reflects this from 2024/25 where a sum of £5.0m has been included. This will be funded initially with up to 40% from 1-4-1 RTB receipts and the majority of the remaining 60% from the reserves currently held in our Major Repairs/New Build/Loan Repayment Reserve with PWLB use of borrowing as last resort if the rates are favourable after financial appraisal costings. It is anticipated that up to £7.5m will be spent in the following two years.

3.0 Risk Assessment

3.1 Self-financing means that much of the risk involved with the upkeep, maintenance and management of council housing has moved from Central Government to Local Authorities. Therefore the maintenance of the Major Repairs/New Build/Loan Repayment Reserve is considered essential. This reserve provides for the future funding of HRA projects, including new build programmes, safeguarding non-insurable risks and allowing the Council to take the opportunity to carry out any special debt repayment (potentially leading to discounts) should the economic conditions favouring such measures arise; and is in addition to the HRA Working Balance.

3.2 The government's decision to allow rents to increase in social housing for 5 years at CPI plus 1% from April 2020 has slightly improved the budgeted reserve levels previously anticipated in the HRA Business Plan, although some of these have been offset by the increase in costs primarily due to rises in inflation and the current economic climate . These balances will be a major contribution to the new build programme 2.3(d) and will mean that the need to borrow will be reduced. Capital investment for 2024/25 alone is £9.1m and is geared towards maximising the use of other available resources and use of borrowing as last resort. Revenue account balances will continue to be maintained at their current levels but funds that had been budgeted to be transferred to the Major Repairs/New Build/Loan Repayment Reserve will be amended by the amounts as detailed in Appendix B.

Currently one of the continuing risks to the account is an 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 is reviewed annually to recognise that not all the outstanding debt will be recovered.

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.

4.0 Conclusion

From April 2024 rents will increase at the rate of 7.7%.There have though been increases in help for tenants detailed in the Autumn statement which puts the rent increase into perspective. These are detailed below, for reference:
Benefit Cap increased by 6.7%.
National Living Wage Increase from £10.42 to £11.44 (9.7%).

The average social housing rent for secure tenants is currently £89.52 per week this excludes hostels and the affordable rented properties. This is set to increase to £96.41 for 2024/25. Hostels are are due to increase from £180.89 to £194.82 and affordable rents from £166.85 to £178.65.
An analysis of the numbers of different stock types and corresponding new rental levels is detailed in Appendix C.

Rents will increase by £6.80 a week on average for the social housing tenants, £13.93 for Hostels and £11.50 for affordable properties. It is proposed that service charges for tenants will continue to be determined at a level that enables the Council to recover the cost of the services provided and will decrease on average by 2.1%,a reduction of £0.11 per week.

Financial Services comments:	Contained within the report
Legal Services comments:	Contained within the report
Equality and Diversity:	No direct implications.
Climate Change implications:	Not applicable
Crime and Disorder:	Not applicable
Service Improvement Plan implications:	The HRA Business plan is a service improvement plan item.
Corporate Plan:	More effective performance management, which includes making the best use of our assets, is a strategic priority in the Corporate Plan
Risk Assessment:	As detailed in paragraph 7
Background Papers:	Garage Strategy (June 2009) /HRA Business Plan financial model 2023-2053(Jan 2023) Business Plan Update Council Dwelling Rents 2023
Appendices:	Appendix A To Follow Appendix B Appendix C Appendix D
Report Author/Lead Officer:	Tim Hoskins Group Accountant

HRA 30 YEAR BUSINESS PLAN EXTRACT					
	2023/24 '000	**2024/25 '000**	**2025/26 '000**	**2026/27 '000**	**2027/28 '000**
Rental income	15,376	16,907	17,191	17,698	18,229
Service chgs	835	818	820	840	856
Voids/Write Offs	-240	-240	-250	-255	-260
Garages	334	356	360	362	365
Other Income	408	424	425	428	430
Total Income	16,713	18,265	18,546	19,073	19,620
General management	2,610	2,983	3,058	3,118	3,181
Special management	2,412	2,649	2,715	2,769	2,825
Repairs	5,043	5,688	5,345	5,452	5,561
Other Expenditure	337	377	390	410	430
Total Expenditure	10,402	11,697	11,508	11,749	11,997
Interest Received	-507	-423	-319	-194	-170
Capital Expenditure	3,307	4,100	3,700	3,700	3,700
Net Operating Income	3,511	2,891	3,657	3,818	4,093
Prudential borrowing					
Loan Interest	2,022	2,101	2,027	1,970	1,991
loan repayment					
Debt management	46	48	48	48	48
MRR/New Build	-1,443	-742	-1,582	-1,800	-2,054
Total Appropriations	3,511	2,891	3,657	3,818	4,093

Appendix B

	BUDGET 2023/24 £000	REVISED 2023/24 £000	BUDGET 2024/25 £000
HOUSING REVENUE ACCOUNT			
Expenditure			
Repairs & Maintenance	5,065	5,043	5,688
Supervision & Management	5,291	5,022	5,632
Rents ,Rates,Taxes and Other Charges	219	337	377
Depreciation,Impairment and Revaluation	4,025	3,307	4,100
Debt Management Costs	48	46	48
Total Expenditure	14,648	13755	15,845
Income			
Dwelling Rents	(15,861)	(15,970)	(17,485)
Non Dwelling Rents	(353)	(334)	(356)
Charges For Services and Facilities	(497)	(408)	(424)
Total Income	(16,680)	(16,713)	(18,265)
Net Cost Of Services	(1,811)	(2958)	(2,420)
Interest Payable & Similar Charges	2,012	2,022	2,101
Interest & Investment Income	(199)	(507)	(423)
NET HRA SURPLUS FOR YEAR	(250)	(1443)	(742)
HRA Balance			
Balance B/fwd	991	991	991
Transfer to from HRA			
Balance C/F	991	991	991
NEW BUILD RESERVE			
Balance B/Fwd	(3,381)	(3,381)	(4,824)
Transfer (to)or from HRA	(250)	(1,443)	(742)
Contribution to Capital	0	0	0

Appendix B

Balance C/Fwd	(3,631)	(4,824)	(5,566)

APPENDIX C

Stock Count as at 1st December 2023

Type /bedroom		1	2	3	4	5	Total
Bedsit		12					12
Bungalow		314	65	9		1	389
Flat		918	60	16	1		995
House		9	296	797	78	2	1182
House with extra ground floor bedroom			2	18	1	2	23
House with garage attached on curtiledge				13			13
Maisonette		23	102	57	2		184
Sheltered Bedsit		13					13
Sheltered Bungalow		38					38
Sheltered Flat		125	6				131
Hostels		72	8	4			84
Total							3064

Average rent by bedroom size

Type /bedroom		1	2	3	4	5	
Bedsit		77.01					
Bungalow		94.94	106.75	116.20		115.45	
Flat		87.33	104.47	107.27	117.59		
House		94.77	109.02	115.58	125.93	127.20	
House with extra ground floor bedroom			106.93	123.64	130.50	133.08	
House with garage attached on curtiledge				119.51			
Maisonette		90.01	102.25	105.80	117.57		
Sheltered Bedsit		88.66					
Sheltered Bungalow		97.75					
Sheltered Flat		82.62	94.09				

Appendix D	
Revenue	**Budget £**
Day to Day Repairs & Maintenance	2,239,000
Voids	1,570,000
Bulk waste	145,000
Lift replacement and repairs	30,000
Estate improvements	50,000
Cyclical works	970,000
Total	5,004,000
Capital	
Asbestos	50,000
Fire Risk Assessments	75,000
Disabled Aids	635,000
Contingent Major Repairs	501,000
Windows and Doors	60,000
Kitchens and bathrooms	350,000
Electrical upgrades	1,750,000
Heating upgrades	630,000
Tenant Led Schemes	50,000
Total	4,101,000
Total Overall	9,105,000