Agenda Item 6
Cabinet
6 February 2025

Title: Housing Revenue Account (HRA) Budget 2025/26 and Housing Rents Setting Report
Lead Officers: Lisa Barker & Victoria Bamber
Portfolio Holder: Councillor Adkins
Wards of the District directly affected: All

Approvals required	**Date**	**Name**
Portfolio Holder	23/01/2025	Cllr Adkins & Cllr Chilvers (Housing & Finance)
Finance	23/01/2025	Victoria Bamber (Author)
Legal Services		N/A
Chief Executive	23/01/2025	Chris Elliott
Director of Climate Change	23/01/2025	Dave Barber
Head of Service(s)	23/01/2025	Lisa Barker
Section 151 Officer	23/01/2025	Andrew Rollins
Monitoring Officer	23/01/2025	Graham Leach
Leadership Co-ordination Group		N/A

Final decision by this Committee or rec to another Cttee / Council?	Recommendation to: Council
Contrary to Policy / Budget framework?	No
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	No
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	Yes, 2025/26 Budget Setting Report
Accessibility Checked?	Yes

Summary

Each year local authority housing landlords are required to set rents and budgets for the forthcoming financial year.

This report informs Members on the Council's financial position for the Housing Revenue Account, bringing together the latest and original Budgets for 2024/25 and 2025/26. The report presents a balanced budget for 2025/26, with a forecast requirement of £4.073m from the Housing Revenue Account (HRA) Capital Investment Reserve (CIR). This is presenting an increased requirement from the CIR of £1.136m from that presented in December 2024.

The report makes recommendations to members in respect of Council tenant housing rents, garage rents and other HRA charges for 2025/26.

Recommendation(s)

(1) That Cabinet recommends to Council to approve the proposed increase to rents for all Social & Affordable tenanted dwellings (excluding Shared Ownership) for 2025/26 at 2.7% (CPI 1.7%+1%) at September 2024 as per the Regulator of Social Housing National Rent Policy increases.

(2) That Cabinet recommends to Council to approve that Existing Shared Ownership tenanted dwelling rent increases of 4.1% (RPI 3.6%+0.5%) at November 2024 in line with Homes England Leases and advice from the National Housing Federation.

(3) That Cabinet recommends to Council to approve that New Shared Ownership tenanted dwelling rent increases commencing from 12th October 2023 are increased annually by 2.7% (CPI 1.7% + 1%) in line with the Shared Ownership Rents Reform.

(4) That Cabinet notes that the HRA Social dwelling rents for all new rented tenancies created in 2024/25 continue to be set at Target Social (Formula) Rent for Social rent properties.

(5) That Cabinet notes that the HRA Affordable dwelling rents for all new tenancies created in 2025/26 continue to be set at the standard National Affordable rent level of 80% of Local Market Rent.

(6) That Cabinet recommends to Council to approve that Garage Rents for 2025/26 continue to be increased by 10% per year.

(7) That Cabinet recommends to Council to approve the new Temporary Accommodation rent review inflation policy of 2.7% (CPI 1.7% +1%) capped at 90% of Local Housing Allowance Rent

(8) That Cabinet recommends to Council to approve the proposed 2025/26 HRA revenue budget

(9) That Cabinet recommends to Council to approve the Sheltered Housing Heating, Water and Lighting recharges for 2025/26

(10) That Cabinet recommends to Council to approve the phased introduction of Service Charges and the associated annual inflation policy specific to each service charge contract in place to be inflated at the 1st April each year.

(11) That Cabinet recommends to Council to approve for work to commence to assess the scope for separating out service charges from rents across all multi-occupancy buildings.

1 Reasons for the Recommendation

1.1 The Housing Revenue Account (HRA) is a ringfenced account for Local Authority Housing provision under Section 74 of the Local Government and Housing Act 1989. Councils must set rents and budgets for the forthcoming year and provide tenants with statutory notice of any proposed rent and service charge changes. The Council by law is to avoid budgeting for a deficit on the HRA which means that the HRA Balance must be above zero with costs being met in full by income and if required drawing down from reserves.

1.2 The budget presents an increased requirement from the HRA Capital Investment Reserve (CIR). The full impact of having to drawdown from the HRA CIR will be outlined in the forthcoming HRA Business Plan Report being presented to March Cabinet.

1.3 The development of Leyes and Rouncil Lane school sites in Kenilworth are two key priorities for the Council. These will significantly contribute to the delivery of affordable homes in the area and provide beneficial contributions to the HRA going forward. The sites will be subject to a separate Cabinet report in due course.

1.4 **Social Rent Setting and National Rent Policy**

1.5 From April 2020, a new National Rent Policy came into effect, which included the ability for Councils to increase rents annually by up to (CPI+1%) at September per annum. It is proposed that the Council will increase rents for Social Rent dwellings by (CPI+1%) at the September 2024 rate of 1.7% + 1% meaning a total rent increase of 2.7% from April 2025.

1.6 After a short consultation, in the Autumn Statement on 17th November 2022 the Chancellor of the Exchequer announced that a one year 7% Rent Cap would be applied in the place of the National Rent Policy, using a Direction to the Regulator of Social Housing and advised this would support people in Social & Affordable Housing in England with the cost of living crisis by limiting the increase in their rents. CPI at that time was at 11.7% and members will recall that costs (energy, materials, services) were spiraling. The Government has not enabled the position prior to the cap to be recovered resulting in the loss of millions of pounds to the social housing sector over time.

1.7 Details of current rents and those proposed because of these recommendations are set out in Appendix 1. It is noted that from April 2016 Target Formula rents are applied when a dwelling becomes void and re-let, existing tenancies prior to this policy change, continue under the historic rent regime with inflation linked in line with national rent policy. Appendix 1 contains the average rents for both Target Formula Rent and Historic Rent policy dwellings.

1.8 A comparison of the Councils proposed 2025/26 rents to Local Market Rents, National Formula Rent Caps and Local Housing Allowance Rents is set out in Appendix 2. The Councils Social Rents are 42% lower than the Local Average Weekly Market Rent. This means that the Council's housing service reduces the cost of living for tenants, allowing more money to be spent in the wider economy and reducing the social welfare costs of helping lower income tenants afford their rent.

1.9 From April 2016 landlords were permitted to set the base rent as the Target Social Rent (also known as Target Formula Rent) for new Social Tenancies. These tenancies are subject to agreed rental policy to comply with the Welfare Reform and Work Act 2016. New lettings for social rent properties that take place between 24 February 2025 and 31 March 2026 (after the rent increase notification has been sent to current tenants,) will be let at the post April target rent, based on previous year's figures, this will affect approximately 40 new tenants.

1.10 The Council adopted the policy to introduce Target Formula Social Rents on new tenancies issued upon a dwelling becoming void and re-let. This phased approach equates to approximately 400 dwellings per year transferring from the prior social rent policy to Target Formula Rents. Existing tenancies commencing prior to April 2016 will remain on the prior rent policy with rents being inflated by (CPI+1%) for 2025/26, in line with Target Social Rents Dwellings.

1.11 **New Affordable Rented Housing Tenancies**

1.12 New Affordable Rented Housing tenancies within the HRA will continue to have their rents set in line with the National Affordable Housing Rate which is 80% of the Local Market Rent in line with planning permission and grant approvals from Homes England (where these apply).

1.13 Prior to 2020 existing Affordable Housing tenancies were set at a special "Warwick Affordable Rent" which was a mid-point between Social and Affordable rent. Any existing historic tenancies will continue to pay 'Warwick Affordable' rents for the remainder of their tenancy to ensure there are no negative financial implications for existing tenants**.**

1.14 Affordable rents and 'Warwick Affordable' rents will be inflated in line with national rent policy at (CPI+1%) at September, meaning total rent increasing to 2.7% from April 2025.

1.15 **Shared Ownership**

1.16 Shared Owners purchase a percentage of the property from the Council and are required to pay rent on the proportion of their home which they do not own.

1.17 Up until 2024 Shared Ownership rents used to be increased once a year by the Retail Prices Index (RPI+0.5%) in line with the Homes England Lease Agreements in place, However, the government recognised that RPI was an outdated measure of inflation, with the government is committed to phasing out of usage by the end of the decade.

1.18 On 12th October 2023 it was announced by the Department for Levelling up, Housing & Communities that rents for new Shared Owners can instead be increased once a year by no more than the Consumer Prices Index (CPI+1%). This reform brings Shared Ownership rents into line with the limit that normally applies to annual rent increases in other forms of social housing.

1.19 Rents for new shared ownership tenancies will be increased annually by (CPI+1%) which will be 2.7% from April 2025, existing Shared Ownerships will remain on (RPI+0.5%) which will be 4.1%.

1.20 **Garage Rents**

1.21 Garage Rent increases are not governed by National Rent Policy Guidance. In 2020/21 as part of the HRA Rent Setting Report, Cabinet approved Garage Rents to be increased by 10% per year over a 5-year period with following years being inflated by CPI. The Council does not have a formal policy for the setting of rents for garages, but the points below contributed to the decision to increase the rents.

1.22 Two different rent charges apply to garages depending upon whether the renter is an existing WDC tenant or not. There are also parking spaces and cycle sheds which are charged for.

1.23 Market Research shows that in the private sector, garages are being marketed in the district with rents ranging from £80-£105 per month depending on quality and location (local market valuations last reviewed January 2024). The average monthly rent for a Council garage is currently £55.19.

1.24 **HRA Dwellings being Leased to the General Fund for Temporary Accommodation**

1.25 The HRA owns a number of dwellings that are sub-leased to the Councils General Fund to be used as Temporary Accommodation. The reason for the dwellings being sub-let is that Homelessness is a General Fund function and must be financed separately from the HRA Ringfence which means the HRA cannot cross subsidise General Fund costs and vice versa in line with legislation.

1.26 The way the Lease Financing works is that the HRA charges the General Fund an annual lease charge based on the weekly rent that would be charged for a Temporary Accommodation Dwelling. The General Fund Temporary Accommodation team allocates the Temporary Accommodation occupants and levies an occupation charge which is then collected and paid into the General Fund. At year end an internal transfer is made by the Accountancy Team to enable the General Fund to transfer enough to the HRA to pay for the annual lease charge.

1.27 Most of the Temporary Accommodation charge is funded by tenants claiming Housing Benefit due to the nature of the service.

1.28 During the 2021/22 Social Housing Rent Regulator’s inspection of the HRA Rents It became apparent that the HRA dwellings being sublet to the General Fund as Temporary Accommodation were deemed to have low rents. Although Temporary Accommodation falls outside of the Social Rent Regulators Remit, it was stated that it is good practice to have an annual rent review in place and a firm inflation policy adopted where the HRA owns the stock being sub-let to the General Fund.

1.29 There is no official National Rent Policy where Temporary Accommodation is concerned as providers vary greatly across the sector from B&B’s, Hotels, Private Landlords, Local Authorities and Housing Associations so one flat rate of rental inflation has not been legislatively applied to this sector.

1.30 During the 2023/24 financial year a full review of the HRA Temporary Accommodation Rents was completed to comply with the Social Rents Regulator’s suggestions, a consultation took place in January 2024 with the

Local Benefits Office, where it was discovered rents are undercharged and should be increased to £117.69 for a 1-bed property, £147.69 for a 2-bed property and £173.08 for a 3-bed property.

1.31 The lease agreements between the HRA and General Fund would be updated to factor in these new revised rents and an annual agreed inflation policy will be implemented.

1.32 To ensure that these rents do not fall below acceptable levels again they will need to be inflated annually. After researching other Social Housing and Temporary Accommodation providers to seek the most appropriate inflation policy it is recommended that the rental inflation policy adopted by the Councils HRA for leased HRA Temporary Accommodation properties is CPI+1% in line with the Councils Social Rent Policy with a locally set cap being put in place of 90% of the Local Housing Allowance Rate for the local area in November each year and linked to the relevant property size which ties up with housing benefit eligibility rules linked to temporary accommodation rents.

1.33 This annual inflation policy will ensure the rents will remain affordable to tenants but will give assurance that the Council is recovering its costs for leasing HRA housing stock to the General Fund and Temporary Accommodation Tenants.

1.34 **HRA Revenue Budgets 2025/26 base**

1.35 In determining the 2024/25 Base Budget, the over-riding principle is to budget for the continuation of services at the agreed level. The following adjustments need to be made to the 2024/25 Original Budgets:

- Removal of any one-off and temporary items
- Addition of inflation (contractual services and pay only)
- Addition of previously agreed growth items
- Addition of unavoidable growth items
- Inclusion of any identified savings

1.36 The table below summarises the figures in Appendix 3 and shows how the 2025/26 HRA base budget has been calculated.

	£
Original Approved Net HRA Surplus 2024/25	**(6,866,300)**
Net Increase in Expenditure	1,360,400
Net Increase in Income	(2,616,800)
Original Net HRA Surplus 2025/26	**(8,122,700)**

1.37 In December 2024, the 2025/26 draft base budget was presented to members. This reflected a balanced position at that stage of the process, with a forecast deficit of £2.937m, with provision made to balance the budget using the HRA Capital Investment Reserve.

1.38 A further £1.136m of budget changes have subsequently been added to the budget, bringing the requirement on the HRA CIR to £4.073m to balance the budget.

1.39 Key drivers of the change in budget include:

- Extension to waking watch into 2025/26 - £0.599m. Work is underway to provide an alarm solution in the respective high-rise sites which, when concluded, will negate the requirement to provide a waking watch. Supply constraints have meant that work to conclude the alarm installation will continue through into 2025.
- Extension to security at school sites in Kenilworth pending development decision - £0.292m.
- A scheme to provide an allocation towards the provision of flooring to support vulnerable tenants who start WDC tenancies - £0.100m per year for 2 years.

1.40 While a number of budget changes have already been included to meet service redesign requirements, a new target operating model is currently being developed and alongside this, a review of the Assets and Housing service is underway. These pieces of work will see the functions integrate to enable improved customer pathways and outcomes. Any changes to the funding requirements will be brought forward at the earliest available opportunity.

<u>Appropriations</u>

Appendix 3 shows the HRA Expenditure and Income budgets which are noted in the above paragraphs, the Expenditure and Income are added together to create a Net Income from Services Total.

Further down the appendix there is a further section titled "Appropriations" which shows how the operational surplus is then used to fund the "below the line" costs such as paying the interest on loan financing, contributions to and from HRA reserves and capital financing recognition. This is accounted for differently to the General fund budgets but is a set format outlined by national accounting guidance from the Chartered Institute of Public Finance (CIPFA).

The Key Drivers for changes in Appropriations budgets are as follows:

- An Increase of £3.474m on Interest on Balances Costs. This represents the increasing borrowing to support the HRA's capital programme year-on-year.
- An Increase of £0.699m in Capital Financing
- An increase contribution from HRA Reserves of -£3.873m
- A Reduction of £0.787m in Retirement Benefit Contributions

Ultimately the increase in operational costs linked to the regulatory cost increases plus the external loan borrowing costs have caused a need to bring in £4.1m HRA reserves to balance the budget of the Housing Revenue Account.

Due to the current Economic instability external Public Works Loan Board (PWLB) borrowing is a lot higher than forecast so when external loans are being drawn down to fund the HRA's contractually committed capital expenditure the loan financing costs will vary depending on the rates at the time of the land being agreed.

New Council dwellings do start generating income from handover and have been financially appraised to show the rents will cover the loan repayments. Extra unexpected costs linked to the housing regulator improvements are impacting the HRA's ability to cover these increase loan financing costs and the extra income from the new dwelling rents is partially being taken up to fund the new staff costs and contracts linked with the regulatory improvements.

The HRA's capital programme had always planned on relying on external borrowing to fund its housing development schemes but the Council deferred taking out this external borrowing for a number of years. This was due to treasury management strategies which allowed for 'internal borrowing', for which the interest was paid to the General Fund rather than to PWLB. Rates were lower than those charged by PWLB meaning that both the borrower, and the General Fund investor received benefit. However, this has meant that now when the time has come to borrow externally the interest rates are high and therefore shorter-term loans are being used to keep the interest rates as low as possible and enable the HRA to refinance loans where possible, and when the time is right, to more preferable rates. It is nevertheless having an impact on the HRA negatively.

1.41 A number of assumptions have been made in setting the budgets for 2025/26 as follows:

1.42 Inflation has been applied in line with specific guidance for each expenditure type, for instance the Gas and Electricity inflation has been advised by ESPO the Commercial Energy Broker that the Council buys its energy from.

1.43 Other inflation factors such as for the major works has been inflated depending on the contract, staff costs have been inflated in line with the National Local Government annual pay agreement and where no clear inflation factor is apparent a % estimate has been applied to general budgets where applicable.

1.44 Rents - In 23/24 a rent cap of 7% was applied to social and affordable housing and shared ownership for a period of one year which meant that the increase in income did not cover the costs of the increased inflation on other operation costs and has an ongoing knock on effect to the HRA budgets as the lost income compounds. As mentioned previously the rent cap has now been lifted allowing WDC to inflate rents by the National Rent Policy rates of (CPI+1%) for Social and Affordable Housing, (RPI+0.5%) for existing Shared Ownership in 2025/26

1.45 Growth/Income Reductions from unavoidable and previously committed growth have been included in the Base Budget.

1.46 HRA Capital Investment Reserve - Any HRA operational surplus above the amount required to maintain the appropriate HRA working balance of £1.5m is transferred into the HRA Capital Investment Reserve (CIR) to be used on future HRA capital projects. If the costs increase to the point that there is a requirement to draw money out of the HRA CIR then this is noted in the same place in the budget appendix 3.

1.47 The Current Balance of the HRA CIR is £20.120m, there are numerous demands on this reserve particularly from new regulatory costs, New Build Development schemes, Climate Change and Fire Safety works. The CIR is also being used to support the Major Repairs Reserve as that has been used in full in recent years to support the ongoing improvement works on the Councils Housing Stock. The full impact of having to drawdown from the HRA CIR will be documented in the forthcoming HRA Business Plan Report being presented to March 2025 Cabinet, which will also set out how a more sustainable position can be achieved to move away from a reliance on reserves to balance the in-year budget.

1.48 **Relevant Age Designated & Sheltered Housing Heating, Water and Lighting recharges for 2025/26**

1.49 Costs for electricity, gas, water, and laundry facilities are provided at some sheltered housing schemes and are recovered as a weekly charge. These utility charges are not eligible for Housing Benefit. Tenants are notified of these charges at the same time as the annual rent increase. Appendix 4 contains the charges for 2025/26 which will commence on the 1st April 2025.

1.50 A policy of full cost recovery was adopted in the report to Cabinet "Heating, Lighting and Water Charges 2018/19 – Council Tenants' on 7th February 2018." Recharges are levied to recover costs of electricity, gas, and water supply usage to individual properties within one of the sheltered and the five very sheltered housing schemes.

1.51 The costs of maintaining communal laundry facilities are also recharged at those sites benefiting from these facilities under the heading of miscellaneous charges.

1.52 Utility costs are reviewed in line with Council contracts to ensure affordability. The gas and electricity used to deliver communal heating and lighting is supplied under the provisions of the Council's energy supply contracts. Other measures such as installing Photovoltaic cells (solar panels) at James Court, Tannery Court and Yeomanry Court in April 2012 assist with reducing tenant's costs with the electricity generated reducing consumption from the national grid.

1.53 The charges necessary to fully recover costs for electricity, gas, water, and laundry facilities in 2025/26 are calculated annually from average consumption over the last three years, updated for current costs such as average void levels, Solar panel feed in tariff income, Biomass Boiler feed in tariff subsidy and adjusted for estimated inflation for the forthcoming year. The use of a 3-year adjusted average ensures that seasonal and yearly variations are reflected in the calculation.

1.54 In recent years the cost of gas and electricity had increased. The Councils electricity contract was renewed in October 2024 and the gas contract is to be renewed in April 2025. At the end of 2023 we began to see prices stabilise and, in some cases, decrease. As part of these contract renewals, it has been predicted that Gas will decrease by 20% in 2025. Electricity is predicted to reduce by 25% from October 2024-September 2025 but after then a slight increase is expected, these inflated costs are starting to reduce for 2025/26.

1.55 To protect the general public from the huge increases in energy costs the Government implemented an Energy Price Guarantee which protects customers from increases in energy costs by limiting the amount suppliers can charge per unit of energy used. It currently brings a typical household energy bill in Great Britain for dual-fuel gas and electricity down to around £1,928 per annum from January 24.

1.56 Council tenants are on the ESPO business contract. Therefore, the total charges to be paid by Sheltered Housing tenants for their energy is below this cap noted in Appendix 4. Depending on the location and the number of bedrooms in the dwelling the total annual bills range from £585.00 - £1,398.80 which at the top end of this range is £529.20 less than the £1,928 Energy Price Cap.

1.57 The 3-year average cost calculation shown in appendix 4 shields tenants to some extent from the huge increases in gas and electricity bills which have been experienced over the last years. However, in 2024/25 a further measure was taken to reduce the impact to tenants as it was also decided to forecast further increases based on a per property basis, % increase between 2022/23 to 2023/24, rather than use the previous year's mark up of 200% and 100%, this was a more accurate approach to setting budgets and has helped further reduce charges to tenants, however this still means the Council's HRA has to meet any shortfalls in income caused by this policy change.

1.58 The total cost to the Council in 2025/26 has been calculated at £239,919.72 for Electricity, Heating, Lighting and Laundry and £44,141.74 for Water. This will be recovered by recharging tenants of applicable Sheltered Housing Schemes with the Service Charges being itemised on Appendix 4.

1.59 **New HRA Service Charges Policy**

1.60 Service charges apply in two ways a) where the Council own multi-occupancy buildings and provide services such as heating, lighting and cleaning of communal areas, and b) where the Council own buildings on an estate where external services such as maintenance of unadopted roads, play areas or green spaces are provided by a managing agent.

<u>Council Owned Buildings</u>

1.61 For Sheltered schemes, the Council already applies a service change in relation to heating and lighting and a total cost recovery approach applies.

1.62 There is however no charge for other services such as grounds maintenance, fire alarms and other such services to the sheltered schemes.

1.63 Across the remainder of the multi-occupancy dwelling stock, which constitutes around half of the total stock, services which are commonly covered by service charges are not charged for separately.

1.64 This means that the costs for these services is met from rents. There are drawbacks with this approach:

1.65 The HRA is missing out on additional income that could be generated by applying charges for service provision

1.66 Rents are regulated by government policy and artificially constrained to increases of CPI +1% whilst energy prices and land management costs are more volatile and subject to market forces. This means as energy costs rise, the proportion of rental income available to repay the 'mortgage' effectively reduces.

1.67 Government has, from time to time further limited the rent rise that landlords can apply. An example of this is referenced at para 1.4. There was no correlating government policy on the treatment of service charges meaning that landlords who has separated out costs of service charges from rent could apply a total cost recovery.

1.68 While most service charges will see increases annually to reflect the additional cost of providing the service linked to contract inflation is may be possible in some cases that service charges could reduce where contracts are reprocured in future years. Contracts would always be procured within the Councils Procurement policies with best value and quality to tenants being the main drivers awarding each contract, where such services are provided by the Council.

1.69 It is proposed to scope out the potential to separate service charges from rents and thereby provide some protection from government rent caps and restrictions going forward.

New Developments

1.70 A number of new build housing developments have been purchased by the Council's HRA in recent years. At some sites, facilities which would ordinarily be adopted by the relevant local authority (who in turn would service and maintain), are being retained by the developer, and service charge levied to each household. These service charges are totally independent from Social/Affordable or Shared Ownership Rents. It is the intention of the Council for the HRA to pay the charges for properties and then seek reimbursement from occupants.

1.71 A phased introduction of Service Charges therefore needs to be approved in the HRA which is specific to each dwelling on each separate new build site where applicable.

1.72 The annual inflation policy of these contracts also needs to be approved and revised annually in line with actual contract inflation costs specific to each service charge contract in place to be inflated at the 1st April each year.

1.73 Service charges are calculated by splitting the cost of the service over the number of properties benefitting from that service and must be on a cost recovery basis i.e. charges must not make a profit, they are just to recover full contract costs that the Council's HRA would incur otherwise.

1.74 If a service charge is proposed to increase, it's because the current charge does not cover the full cost of providing that service. Different services may therefore have different proposed adjustments annually to better reflect their actual costs.

1.75 Service charges may increase or decrease separately from rents each year based on the actual services being provided and the costs incurred and will be based on actual expenditure for the preceding financial year where reasonably possible.

1.76 The Council will seek to recover 100% of the service charge costs being incurred to ensure that tenants that benefit from the additional services being provided do not subsidise the service.

For both types of Service Charges

1.77 Service Charges are not covered by the same Government guidelines as rent setting; however, the guidelines are that service charges should be set on a reasonable and transparent basis and should reflect the service provided.

1.78 Where new or extended services are introduced, and an additional charge may need to be made, the Council would consult with tenants.

1.79 For Affordable Rent tenants, the service charge is included alongside the rent.

1.80 The service charges that form part of the tenancy or occupation agreement will be highlighted in the agreement. There is no option to opt out of any specified charge.

1.81 The annual review of service charges will be an integral part of the budget setting process across the Council and subject to approval. Once agreed the new rent and charges are implemented in the April of the next financial year.

1.82 The Council will give tenants four weeks written notice of any change in the level of service charges which normally be prior to April and rent increases would be advised at the same time in line with Section 13(2) of the Housing Act 1988 where appropriate.

1.83 **Alternative Options**

1.84 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy, in line with current Council policies. Any alternative strategies will be the subject of separate reports.

1.85 **Garage Rents** - The Council has discretion over the setting of Garage Rents. It would be possible to set Garage Rents higher than those proposed to maximise income; however significantly higher rents may make Garages harder to let and so reduce income. Similarly, rents could also be reduced but this would reduce income to the HRA Budget when it is needed and not provide sufficient funds to maintain the garages in good condition.

1.86 **Dwellings** - The Council does have the discretion to decrease rents for existing tenants. However, following the negative impact of the previous rent policy of a four-year fixed -1% rental income reduction from 2016-2020, the negative impact of the Covid-19 Pandemic; and then the recent 7% rent cap not matching inflationary operational costs, any decreases would further reduce the level of income for the HRA, which in turn could impact upon the viability of the HRA to cover its operational costs, future projects and business requirements.

1.87 **Shared Ownership** - The Council does not have the discretion to change the rent schedule for existing shared ownership dwellings without permission from Homes England, which is determined by the existing terms of the lease.

1.88 **Heating –** The Council does have the discretion to reduce the heating charges charged back to tenants however as bills are now reducing so full cost recovery will be implemented as there are already measures in place to shield tenants from the recent high utility cost increases mentioned in paragraphs above.

1.89 Legal Implications

1.89.1 The proposals are in line with current legislation where applicable.

1.90 Financial Services

1.90 The HRA is a key component of the Council's budget framework and the budgets proposed are in accordance with the long term HRA Business Plan. The gross increased income generated from inflating rents in line with the National Rent Setting Policy in relation to, Social Rents, Affordable Rents, Shared Ownership Rents, and the other increases such as Garage Rents, and Service Charges is estimated as a total budget growth of £ 2,616,800 as noted in Appendix 3.

1.91 The recommended budgets maintain the reserve will be kept at £1.5m on the HRA under current Council policy. This minimum balance is separate to any contributions to the HRA Capital Investment Reserve (HRA CIR) or the Major Repairs Reserve, all of which can be seen in the HRA Budget Appendix 3

1.92 The HRA Business Plan will be presented to March 2025 Cabinet and will be reviewed throughout 2025/26 to take account of the changes proposed through the budget setting process and outlined within this report, and also subsequent changes to national policy or adjustments needed to reflect changes to existing spending priorities throughout the year.

1.93 Corporate Strategy

1.94 Warwick District Council has adopted a Corporate Strategy which sets three strategic aims for the organisation:

- Delivering valued, sustainable services **–** Better return/ use of our assets. Full cost accounting, continued cost management. Seek best value for money, ensuring that the HRA is able to set a balanced budget whilst maintaining service provision.
- Low cost, low carbon energy across the district - Where possible we have reduced the charges of energy to our tenants by spreading increases over an average of 3 years. In 2025/26 Charges are forecast to improve the energy efficiency of Council homes.
- Creating vibrant, safe and healthy communities of the future - The HRA budgets provide the necessary resources to enable tenants' needs to be met and support improvement of services relating to Council Housing Stock. Setting sufficient budgets and planning for the future ensures the business plan remains viable to meet service provision and provide a safe environment for residents.

1.95 Environmental/Climate Change Implications

1.96 As part of the HRA repairs, maintenance, replacement and investment work, consideration is given to the environmental impact. The Council has a work programme for decarbonising and increasing the energy efficiency of the housing stock in response to the Climate Emergency declared by the Council. The Council is focused on delivering Council dwellings and services which enable them to meet their agreed strategic outcomes.

1.97 Analysis of the effects on Equality

1.98 Tenants of Council housing include some of the most marginalised and disadvantaged households within our communities. Providing tenants with a home that is built and maintained to a decent standard, is safe and energy efficient will improve the quality of life of occupants, enabling their home to be a springboard to achieve better health, education, and life outcomes.

1.99 Data Protection

1.100 Not relevant.

2 **Health and Wellbeing**

2.1 See Paragraph 7.1

3 Risk Assessment

3.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available. The risks, and appropriate control mechanisms, for the 2024/25 HRA Budget and the rent increase process are considered below.

3.2 The main sources of income which may be subject to increases/decreases include:

- Rental income based on (CPI+1%) at September 2024 and (RPI+0.5%) at November 2024 where applicable, increased arrears from the cost of living crisis and bad debts, void rent loss and Sale of Council Houses (SOCH) through Right to Buy (RTB)
- Service Charges
- Fees and charges
- Investment interest
- Grants

3.3 Increased expenditure in service provision may be due to:

- Inflation and price increases for supplies and services
- Increased demand for services increasing costs
- Changes to taxation regime
- Unplanned and unexpected responsive expenditure
- Assumed savings in budgets not materialising
- Changes in Government legislation

3.4 When setting the HRA budget for 2025/26, a sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:

- Further years of rent caps enforced on the HRA dwelling rents would be damaging to the business model. After the announcement of the 7% rent Cap in the 2023 Autumn Statement, the housing sector is lobbying for a rent clawback scheme to be implemented to enable Registered Social Housing Providers to claw back the lost income in future years above the current (CPI+1%) and (RPI+0.5%) Rent Policies in place but nothing has been confirmed at the time of writing this report.

- The Covid-19 Pandemic impact on Central and Local Government finances is expected to have an ongoing affect the economy for the next 3-5 years. There are several potential risks for instance in regard to the Government's ability to continue to support housing development with grants from Homes England and the ability to continue to fund Homelessness initiatives. Central Government's stance on these matters will have to be monitored closely as changes to current arrangements will impact this model negatively.

- In 2025/26 The Cost-of-Living Crisis is still expected to have a huge impact on the UK's economy.

- Inflation is still a lot higher than expected and seems to have changed direction and is increasing again as the economy is not stabilising as expected, prior to the fluctuations of 2022/23 where CPI reached 11.1% and RPI 14.0%, an expectation of CPI and RPI inflation was 1.5%-2.00% annually.

- The latest published inflation rate as at 10th January 2025 had begun to increase again, RPI is 3.6% and CPI is 2.6% which are both increases on the previous 2 months of inflation rates published on the Office of National Statistics Website. Industry experts are projecting that inflation is set to rise again due to the current economic instability. This is very uncertain at this point in time

- On average the loss of rental income due to Right to Buy (RTB) sales in 2023/24 is £5,600 per annum for each property sold. A capital receipt is received when a property is sold which can be retained, in part, in line with RTB Pooling Rules to fund the acquisition of new/replacement housing.

- In some circumstances, ex-RTB properties must be offered to the Council in advance of the property being advertised on the market. An annual reoccurring budget of £500,000 has been included in the most recent version of the Housing Investment Plan presented to December 2021 Cabinet as part of the HRA Business Plan Report to enable a modest number of properties to be repurchased each year, mitigating the rental loss upon the longer-term Business Plan. Furthermore, the Council has agreed proposals to build new council housing, effectively replacing those sold through the RTB.

- Where any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2025/26 and HRA Business Plan.

3.5 Many controls and mitigations are in place to help manage these risks. These include:

- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets, considering previous, current, and future years, along with any possible issues that may impact upon their budgets. As part of this process, quarterly Budget Review reports are issued to the Cabinet and Senior Leadership Teams.

- Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term. The next revision is due to be presented to Cabinet in March 2025.

- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).

- Project Management and associated controls.

- Trained staff and access to appropriate professional advice (e.g., Legal, Local Government Futures for advice on local government funding and developments in housing).

- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.

- Maintaining a HRA Capital Investment Reserve (CIR) to fund capital investment, such as providing new homes, and to fund any unexpected HRA costs.

- In addition to Reserves, the HRA Balance stands at £1.5m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level and replenish any monies that are drawn down.

- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.

- Specific causes of reductions to income or increased expenditure

- should continue to be managed by the Service Area as part of managing risks within the Service Risk Register.

4 Consultation

4.1 Not required

Background papers:

HRA Business Plan presented to Cabinet on the 6th March 2024
Housing Revenue Account (HRA) Budget 2023/24 and Housing presented to Cabinet on 8th February 2024

Supporting documents:

Appendix 1 HRA Rent Setting Report - Rent Summary
Appendix 2 HRA Rent Setting Report – Rent Comparison
Appendix 3 HRA Budgets 2025/26
Appendix 4 Heating, Lighting, Water, Misc Recharges 2025/26