

Title: Housing Revenue Account (HRA) Budget 2024/25 and Housing Rents Setting Report

Lead Officer: Lisa Barker & Emma Leeming

Portfolio Holder: Councillor Wightman

Wards of the District directly affected: All

Approvals required	Date	Name
Portfolio Holder	17.01.24	Councillor Wightman
Finance	Authors	Emma Leeming/Steven Leathley
Legal Services		N/A
Chief Executive		Chris Elliott
Director of Climate Change		Dave Barber
Head of Service(s)	Author	Lisa Barker
Section 151 Officer	28/01/24	Andrew Rollins
Monitoring Officer		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, 2024/25 Budget Setting Report	
Accessibility Checked?	Yes	

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## Summary

The report informs Members on the Council's financial position for the Housing Revenue Account, bringing together the latest and original Budgets for 2023/24 and 2024/25. The report presents a balanced budget for 2024/25.

The report makes recommendations to members in respect of Council tenant housing rents, garage rents and other HRA charges for 2024/25.

## Recommendation(s)

- (1) That Cabinet recommends to Council to approve proposed increase to rents for all Social & Affordable tenanted dwellings (excluding Shared Ownership) for 2024/25 in line with the Chancellor of the Exchequer's one year 7.7% (CPI+1%) as per the National Rent Policy increases, as detailed in section 1.1
  - (2) That Cabinet recommends to Council to approve that Shared Ownership tenanted dwelling rent increases of 5.8% (RPI+0.5%) for 1 year in line with advice from the National Housing Federation.
  - (3) That Cabinet notes that the HRA Social dwelling rents for all new tenancies created in 2024/25 continue to be set at Target Social (Formula) Rent for Social rent properties.
  - (4) That Cabinet notes that the HRA Affordable dwelling rents for all new tenancies created in 2024/25 continue to be set at the standard National Affordable rent level.
  - (5) That Cabinet notes that any new Shared Ownership tenancies will continue to adopt lease agreements based on the revised Homes England template lease with rents increased by (CPI+1%) annually.
  - (6) That Cabinet recommends to Council to approve that Garage Rents for 2024/25 continue to be increased by 10% per year.
  - (7) That Cabinet recommends to Council to approve the new Temporary Accommodation rent review noted in paragraphs 1.22, 1.28
  - (8) That Cabinet recommends to Council to approve the proposed 2024/25 revenue budget, as detailed in paragraph 1.39
  - (9) That Cabinet notes the Sheltered Housing Heating, Water and Lighting recharges for 2024/25, (Appendix 4).
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## 1 Reasons for the Recommendation

### 1.1 Social Rent Setting and National Rent Policy

1.2 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. The Council will increase rents for Social Rent dwellings by (CPI+1%) at the September 2023 rate of 6.7% + 1% meaning a total rent increase of 7.7% from April 2024.

1.3 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. However, on 4<sup>th</sup> January 2024, it was announced this would revert to the National Rent Policy (CPI+1%) as detailed in paragraph 1.2 above.

- 1.4 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.
- 1.5 A comparison of the Councils proposed 2024/25 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.
- 1.6 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.
- 1.7 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 7.7% (CPI+1%) for 2024/25, in line with Target Social Rents Dwellings.
- 1.8 **New Affordable Housing Tenancies**
- 1.9 New Affordable 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.
- 1.10 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.
- 1.11 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 7.7% from April 2024.

### 1.12 **Shared Ownership**

- 1.13 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.
- 1.14 Shared Ownership rents are currently increased once a year by the Retail Prices Index (RPI+0.5%), meaning the total rent increase from April 2024 will be 5.8%. However, the government recognises that RPI is now an outdated measure of inflation, the government is committed to phasing out of usage by the end of the decade.
- 1.15 On 12th October 2023 it was announced that rents for new Shared Owners can instead be increased once a year by no more than the Consumer Prices Index (CPI+1%) meaning a total increase of 7.7% from April 2024. This reform brings Shared Ownership rents into line with the limit that normally applies to annual rent increases in other forms of social housing.
- 1.16 The Council will continue to use lease agreements based on the Homes England template lease for all new shared ownership tenancies which will be increased annually by (CPI+1%), existing Shared Ownerships will remain at (RPI+0.5%).

### 1.17 **Garage Rents**

- 1.18 Garage Rent increases are not governed by National 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.
- 1.19 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.
- 1.20 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.

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

- 1.22 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.
- 1.23 The way Lease Financing works is that the HRA charges the General Fund an annual lease based on the weekly rent that would be charged for a Temporary Accommodation Dwelling. The General Fund Temporary Accommodation team allocate the Temporary Accommodation tenants and charge them rent which is

then collected and paid into the General Fund. At year end an internal transfer of this rent is made by the Accountancy Team to enable the General Fund to transfer enough Rent to the HRA to pay for the annual lease charge.

- 1.24 Most of the Temporary Accommodation rent is funded by tenants claiming Housing Benefit due to the nature of the service.
- 1.25 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.
- 1.26 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.
- 1.27 It was proposed that during the 2023/24 financial year a full review of the HRA Temporary Accommodation Rents is 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 significantly 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.
- 1.28 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.
- 1.29 **HRA Revenue Budgets 2024/25**
- 1.30 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 from the 2023/24 budgets:
  - Removal of any non-recurrent (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
- 1.31 The table below summarises the figures in Appendix 3 and shows how the 2024/25 HRA base budget has been calculated.

	£
<b>Original Approved Net HRA Surplus 2023/24</b>	<b>(4,031,100)</b>
Net Increase in Expenditure	900,800
Net increase in Interest on Borrowing	843,400
Net Increase in Income	(2,561,400)
<b>Original Net HRA Surplus 2024/25</b>	<b>(4,848,300)</b>

### 1.32 Key drivers of the change in budgets include:

#### Expenditure

- The increase in expenditure of £900,800 include the following:
- Increased Salary costs in-year including the Working for Warwick pay award, Inflation, offset against an increased vacancy factor.
  - Increase on contract inflation on existing contracts. This increase is based on individual contract inflation as per contract.
  - Increase income as part of the Fees & Charges revive. The increased fees and charges relate to Warwick Response.
  - Decrease in the budget required for Utility costs. Although Utility cost is increasing in the new year, last year's estimate budget was high compared to actual charges in year. A full reconciliation of costs has been completed as part of budget setting, including the inflation charges set by our supplier which has then reduced the budget to expected cost in the year.
- Increase in Depreciation for Equipment, Council Dwellings and other HRA Properties.
- Interest on Balances Costs represents the increasing revenue cost borrowing to support the HRA's capital programme year-on-year.

The amount of interest that is to be credited or debited to the Housing Revenue Account will vary depending on how the net balances and cashflow of the HRA changes. As the HRA's capital programme has begun to rely on external borrowing in recent financial years, due to interest rates and the Council's overall level of investments (of reserves and balances), this borrowing has been deferred, and the HRA has used 'internal borrowing', for which the interest is paid to the General Fund for that fund's share of the investments foregone. As underlying interest rates have risen since the Original Budget 2023/24 was set, the cost to the HRA has risen. However, given how high long-term PWLB (and other borrowing) rates are, this is still cheaper overall to the HRA than replacing the internal borrowing by external debt.

When external borrowing is done by the Council on behalf of the HRA there will be the external interest costs charged to the HRA, and the 'interest on balances' paid to the General Fund will be reduced by a corresponding amount, depending on interest rate differentials."

#### Income

- An increase of Gross Income of £2,561,400 includes the following:
- HRA Dwelling Rents Income increasing by £2,278,200 in line with 7.7% increase as per Rent Policy.

- Garage rents income increasing £74,200 by 10% in line with paragraph 1.19
- An increase in Shared Ownership of £13,800 in line with the new policy for new Shared Ownership of CPI+1%)
- An increase of £171,700 in Service Charges in relation to heating, lighting and water cost increases.
- An increase of £83,000 on Legal Fee income in relation to Right to Buy properties.

1.33 A number of assumptions have been made in setting the budgets for 2024/25, including the following:

1.34 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. The Russian War with Ukraine has caused utility costs to increase by huge and unexpected amounts. Price Caps were implemented by central government to protect consumers and businesses from these extreme price rises but because ESPO Broker affordable contracts for the Council the Caps are a lot higher than the actual usage so are not able to be applied.

1.35 Other inflation factors such as for the major works has been inflated at between 10-14% depending on the contract, staff costs have been inflated in line with the National Local Government annual pay agreement.

1.36 Rents - The base rent budget in this report is a baseline calculated from the 7.7% (CPI+1%) as at September 2023 rate. 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. 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 2024/25

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

1.38 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 CIR then this is noted in the same place in the budget appendix 3.

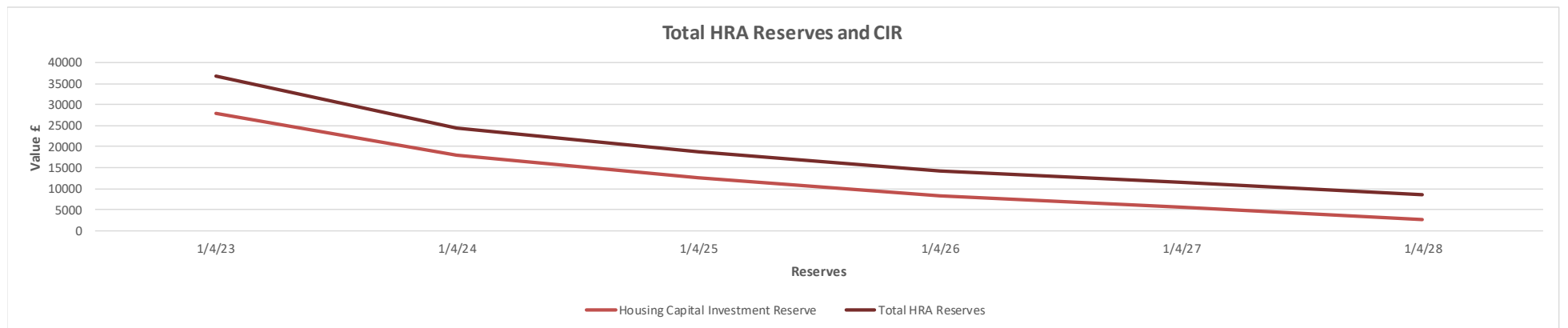
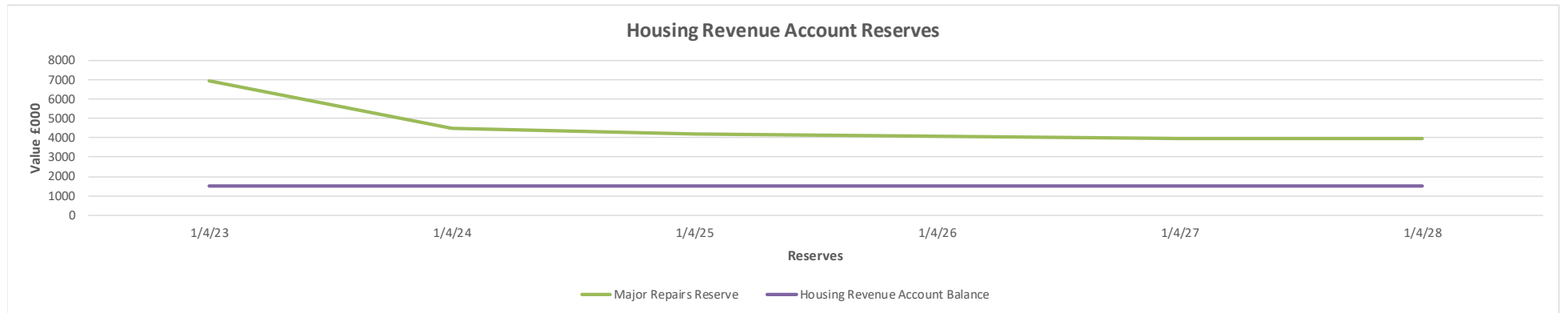
1.39 While the Current Balance of the HRA CIR is £18.032m as at 1 April 2024 , there are numerous demands on this reserve particularly from new build development schemes, Climate Change and Fire Safety works. The CIR is also being used to support the Major Repairs Reserve as that has been used in full 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 Cabinet but in future years budgets will need to be adjusted to ensure that there are sufficient surpluses to enable the HRA CIR to continue to be topped up.

- 1.40 Sheltered Housing Heating, Water and Lighting recharges for 2024/25**
- 1.41 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 2024/25 which will commence on the 1 April 2024.
- 1.42 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.
- 1.43 The costs of maintaining communal laundry facilities are also recharged at those sites benefitting from these facilities under the heading of miscellaneous charges.
- 1.44 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.
- 1.45 The charges necessary to fully recover costs for electricity, gas, water, and laundry facilities in 2024/25 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.
- 1.46 The cost of gas and electricity has increased due to the Cost of Living Crisis. The Council's electricity contract was renewed in October 2023 and the gas contract is to be renewed in April 2024. At the end of 2023 we began to see prices stabilise and, in some cases, slightly decrease. As part of these contract renewals, it has been predicted that Gas will increase by 15% in the first 6 months of 2024 and then reduce by 25% in the remaining 6 months of 2024. Electricity is predicted to reduce by 15% in 2024, meaning gas and electricity remains high for 2024/25.
- 1.47 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.
- 1.48 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 £265.20 - £1,198.60 which at the top end of this range is £729.40 less than the £1,928 Energy Price Cap.



- 1.49 This 3-year average cost calculation in appendix 4 shield tenants to some extent from the huge increases in gas and electricity bills which have been experienced over the last year. However, in 2024/25 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 is a more accurate approach to setting budgets and has helped further reduce charges to tenants.
- 1.50 The total cost to the Council in 2024/25 has been calculated at £229,583.40 for Electricity, Heating, Lighting and Laundry and £39,259.74 for Water. This will be recovered by recharging tenants of applicable Sheltered Housing Schemes with the Service Charges being itemised on Appendix 4.
- 1.51 Reserves – The table below present the latest summary of available as at 1 April 2023. This reflects uncommitted and non ring fenced balances as approved at February cabinet each financial year. This includes estimates of reserve balances through to the 1 April 2028. This is subject to final outturn of the current financial year.
- 1.52 As previously noted in section 1.39, the total balances on HRA Reserves will continue to fall over the coming years, as a result of supporting an ambitious Housing Investment Programme (HIP). This covers the acquisition of new properties, ongoing programmes of replacement components driven by the stock condition survey, and decarbonisation and fire safety works driven by the Council's ambitions and legislation.

Housing Revenue Account Reserve	1/4/23	1/4/24	1/4/25	1/4/26	1/4/27	1/4/28
	Balance at	Balance at (Estimated)	Balance at (Estimated)	Balance at (Estimated)	Balance at (Estimated)	Balance at (Estimated)
	£000	£000	£000	£000	£000	£000
Housing Capital Investment Reserve	27,871	18,032	12,696	8,275	5,694	2,756
Major Repairs Reserve	6,956	4,491	4,176	4,079	3,975	3,975
Housing Revenue Account Balance	1,500	1,500	1,500	1,500	1,500	1,500
Housing Early Retirements Reserve	21	41	61	81	101	121
HRA Rough Sleeping Initiative Reserve	262	262	262	262	262	262
Lifeline Funding for Assistive Technology Reserve	127	21	21	21	21	21
<b>Total HRA Reserves</b>	<b>36,737</b>	<b>24,347</b>	<b>18,716</b>	<b>14,218</b>	<b>11,553</b>	<b>8,635</b>
Changes in Year		(12,390)	(5,631)	(4,498)	(2,665)	(2,918)



## **2 Alternative Options**

- 2.1 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.
- 2.2 **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.
- 2.3 **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 and the negative impact of the Covid-19 Pandemic and then the 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 future projects and business requirements.
- 2.4 **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. As noted above permission to apply the 5.8% in line with the National Rent Policy (RPI+0.5) at November 2023 rate will be sought.
- 2.5 **Heating** – The Council does have the discretion to reduce the heating charges charged back to tenants. In 2024/25 the budget includes a reduction of 1/5 of communal gas paid from scheme bills this is calculated into Appendix 4.

## **3 Legal Implications**

- 3.1.1 The proposals are in line with current legislation where applicable.

## **4 Financial Services**

- 4.1 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 £ 2,561,400 as noted in Appendix 3.
- 4.2 The recommended budgets maintain the reserve will be kept at approximately £1.5m on the HRA under current Council policy, increasing by inflation each year. 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.
- 4.3 The HRA Business Plan will be presented to March 2024 Cabinet and will be reviewed throughout 2024/25 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.

## **5 Corporate Strategy**

- 5.1 Warwick District Council has adopted a Corporate Strategy which sets three strategic aims for the organisation:
- 5.2 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.
- 5.3 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 2024/25 we also increased charges based on the actual cost on a property-by-property basis to keep increases to a minimum.
- 5.4 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.

## **6 Environmental/Climate Change Implications**

- 6.1 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.

## **7 Analysis of the effects on Equality**

- 7.1 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.

## **8 Data Protection**

- 8.1 Not relevant.

## **9 Health and Wellbeing**

- 9.1 See Paragraph 7.1

## **10 Risk Assessment**

- 10.1 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.
- 10.2 The main sources of income which may be subject to increases/decreases

include:

- Rental income based on (CPI+1%) at September 2023 and (RPI+0.5%) at November 2023, 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

10.3 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

10.4 When setting the HRA budget for 2024/25, 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 Autumn Statement it has been stated that the cap will only be enforced for one financial year. 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 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.
- Towards the end of 2023/24 the economy stabilised and we began to see inflation reduce to CPI 6.7% and RPI 5.3%. In 2024/25 The Cost-of-Living Crisis is still expected to have an impact on the UK's economy. 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 17 January 2024 had begun to increase again to 4%, up from 3.9% in November 2023. The first increase since February 2023. Industry experts are projecting that inflation is set to rise again due to shipping disruptions in the Red Sea. This is very uncertain at this point in time as tensions in the region escalate.

- 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 2024/25 and HRA Business Plan.

10.5 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, 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 2024.
- 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, increased by RPI each year, 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.

## **11 Consultation**

### **11.1 Not required**

#### **Background papers:**

HRA Business Plan presented to Cabinet on the 8th March 2023

Housing Revenue Account (HRA) Budget 2023/24 and Housing presented to Cabinet on 9th February 2023

#### **Supporting documents:**

Appendix 1 HRA Rent Setting Report - Rent Summary

Appendix 2 HRA Rent Setting Report – Rent Comparison

Appendix 3 HRA Budgets 2024/25

Appendix 4 Heating, Lighting, Water, Misc Recharges 2024/25