HRA Budget 2024/25

Council	8 February 2024
Report Author	Chris Blundell (Director of Corporate Services - Section 151)
Portfolio Holder	Cllr Yates, Cabinet Member for Corporate Services
Status	For Decision
Classification:	Unrestricted
Key Decision	Budget and Policy Framework
Ward:	Thanet Wide

Executive Summary:

This report presents the 2024/25 budget and 2024-28 capital programme for the Housing Revenue Account.

Recommendation(s):

1. That the HRA budget for 2024/25 is approved;

2. That the revised Housing Revenue Account capital programme (Annex 1) for 2024-28 is approved;

3. That the HRA business plan is noted.

Corporate Implications

Financial and Value for Money

The financial implications of the budget are laid out within the body of the report.

Legal

Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Director of Corporate Services - Section 151 and this report is helping to carry out this function.

The council's responsibilities in respect of the need to keep a Housing Revenue Account (HRA) are contained within Section 74 of the Local Government and Housing Act 1989 ('The Act') and its use is heavily prescribed through statute. The HRA records all of the revenue expenditure and income relating to land, dwellings and other buildings provided under Part II of the Housing Act 1985 and corresponding earlier legislation. It must be separate from the General Fund Revenue Account and therefore is to all intents and purposes ring-fenced.

Although the HRA for an individual year may result in a deficit, it is a requirement of 'The Act' that overall it must maintain a surplus, which means that expenditure must be carefully planned to remain within the limits of the anticipated income streams over the medium term.

The requirements of other relevant statutes have been referenced within the body of this report, where relevant.

Corporate

Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to contribute towards meeting those priorities and to deliver services.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

The council's housing revenue account budget has implications for the services provided to the council's tenants and leaseholders and for households that have applied to the council's housing register and are waiting for a suitable home. This includes tenants, leaseholders and applicants who have protected characteristics as defined by the Public Sector Equality Duty. This report recommends the allocation of resources to services, including the repair and improvement of existing homes and the acquisition and construction of new homes, and it is essential that the council considers the needs of all tenants, leaseholders and applicants, including those with protected characteristics prior to making these decisions. An Equalities Impact Assessment will be complete in respect of the proposals included in this report before the final draft budget is presented to council in February.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1. Introduction and Background

1.1. This report seeks approval of the 2024/25 Housing Revenue Account (HRA) budget and associated capital programme. A review of the council's HRA reserves for both revenue and capital is included. The report further sets out the assumed housing rent increases to assist in funding the budget.

2. Housing Revenue Account Strategic Priorities

2.1. The Housing Revenue Account Business Plan sets out the main strategic priorities for investment in homes and services over the long term. The strategic priorities, set out below, were adopted as part of last year's budget report:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the council.
- To provide opportunities for tenants and leaseholders to become involved in the management of their homes.
- To provide safe, well maintained and energy efficient homes.
- To invest in long-term improvements to the council's housing stock and provide homes that people choose to live in.
- To increase the council's housing stock through programmes of new build and refurbishment.
- To review the alternative options for homes that cannot be maintained to meet current and future standards.
- To maintain a rent and charging policy that is both affordable for residents and ensures the resources needed for investment in homes and services.
- To maintain a minimum level of HRA reserves of £1m.

3. 2024/25 Housing Revenue Account Revenue Budget

3.1. The proposed HRA revenue budget for 2024/25 is set out below.

Table 1: 2024/25 HRA Budget

DRAFT - HOUSING REVENUE ACCOUNT BUDGET	
	2024/25 Proposed
	£'000
Income	
Dwelling Rents (gross)	-17,384
Non-dwelling Rents (gross)	-327
Charges for services and facilities	-706
Contributions towards expenditure	-582
Income Subtotal	**-18,999**
Expenditure	
Repairs & Maintenance	5,459
Supervision & Management – General	5,222
Supervision & Management – Special	1,129
Rents, rates, taxes and other charges	268
Bad or doubtful debts provision	304
Depreciation/impairment of fixed assets	4,353

Capital Expenditure funded from HRA	300
Debt Management Costs	9
Expenditure Subtotal	**17,044**
Net Costs of Services Sub Total	**-1,955**
Share of Members and Democratic Core	132
HRA Investment Income	-823
Debt Interest Charges	2,031
Government Grants and Contributions	-10,038
Adjustments made between accounting basis and funding basis	10,766
(**Surplus)/Deficit on HRA**	**113**
Housing Revenue Account Balance:	
Forecast Surplus at Beginning of Year	-4,631
(Surplus)/Deficit for Year	113
Estimated Surplus at End of Year	**-4,518**

3.2. The estimates show that the 2024/25 HRA revenue budget has a deficit of £113k. This means that the council is expecting to spend £113k more on the HRA for the forthcoming financial year than it will receive in income for rents and other sources.

3.3. As set out in the legal implications, although the HRA budget for an individual year may be in a deficit, it is a requirement of the Local Government and Housing Act 1989 that overall it must maintain a surplus, which means that expenditure must be carefully planned to remain within the limits of the anticipated income streams over the medium term. How the council seeks to move into surplus and the assumptions underpinning achieving this are set out in the HRA Business plan at section 8.

3.4. The key aspects of the draft budget are set out in detail in the following sections.

4. Details of the HRA Expenditure Budgets

4.1. **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 72% for gas/electric and 5% for insurances, which is the best estimate of the level of inflation at this point in time, unless there is a known inflation factor within a specific contract, in which case this has been used. Salaries have been uplifted in line with the agreed pay award of 5.75%.

4.2. **Repairs and Maintenance -** The repairs and maintenance programme has in the main been uplifted by inflationary factors associated with each contract this has led to growth of £204k in the repairs and maintenance budget.

4.3. **Supervision and Management General** – Additional revenue budget has been retained to continue the requirements laid out by Kent Fire and Rescue for a 'waking watch' provision at the tower blocks, whilst the associated on-going capital works are completed.

4.4. **Hardship Fund** - Through consultation with the portfolio holder for housing a hardship fund of £30k has been allocated within the 24/25 budget to assist those tenants on a low income who may be struggling to meet the rent or associated service charges charged. The criteria of the fund will be developed and published by the Tenant and Leasehold team to ensure these specific tenants are supported.

4.5. **Bad or Doubtful Debts Provision** – The bad debt provision is budgeted at 1.75% of rental income and a corresponding increase in the bad debt provision of £44k is proposed.

4.6. **Depreciation for Fixed Assets** – The estimated depreciation charge for dwellings and other assets is calculated at £4.353m in 2024/25.

4.7. **Debt charges** – Since the self-financing settlement, the council has operated a two loan pool approach whereby the HRA and GF are each responsible for the repayment of their own apportionment of loans. As at 30 November 2023, the HRA had £12.6m of loans outstanding. The Council has profiled its forecast debt charges in line with the anticipated level of external borrowing required for the HRA and has budgeted accordingly.

5. Details of the HRA Income Budgets

5.1. **Rent Increases** – Social rents have been set based on government rent guidance. Affordable Rents are linked to local market rents and to the Local Housing Allowance for the area. Rents are applied to individual properties at the lower of either 80% of the local market rent or the Local Housing Allowance. Normally the Council has the flexibility to increase rents by Consumer Price Index (CPI)+1% for social and affordable rent tenants.

CPI was 6.7% in September 2023 and it is this month that is used to calculate maximum rental increases from April 2024, this means a maximum rental increase of 7.7%, which due to the inflationary pressures on the HRA, is required to ensure the business plan remains as sustainable as possible.

Through consultation with the portfolio holder for Housing, social and affordable rents will be increased by the full 7.7%, alongside the addition of the hardship fund set out in 4.4, to ensure that those on a low income and without access to housing benefit/universal credit are not adversely affected by the increase.

CPI for the last 2 years has been 10.1% and 6.7% meaning an inflation increase of 16.8%, whereas rental increases have been increased by 7% 23/24 and 7.7% 24/25, meaning that rent increases have actually been lower than inflation over this period.

Based on the proposed increase across the whole stock the average rent is £102.11, this is an average increase of £7.28p per property per week. Table 2 sets out the proposed average rents across the different property types within the HRA portfolio.

Table 2: Average rents 2024/25

AVERAGE RENTS 2024/25		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	69.82	105.20
1 BED HOUSE	95.23	97.06
1 BED FLAT	82.44	102.15
2 BED HOUSE/BUNGALOW	103.71	135.22
2 BED FLAT	93.20	146.29
3 BED HOUSE	113.13	178.82
3 BED FLAT	105.70	176.01
4 BED HOUSE	124.82	194.17
4 BED FLAT	110.25	200.38
5 BED HOUSE	135.75	n/a

The proposed average rent of £102.11 is substantially below the Local Housing Allowance levels - LHA rents are in the order of 40% higher - and actual private sector rents are higher still. It should also be noted that approximately 81% of those charged social rents and 91.5% of those charged affordable rents, are in receipt of either Housing Benefit or Universal Credit. Whilst individual cases may vary due to specific circumstances, it is reasonable to assume that in general, increased rent will be matched by increased benefit.

Due to the increase in LHA rates from 1st April it is anticipated that no one in an affordable rented property would see their rents increase over and above the LHA rate as a result of the 7.7% increase. Although if this was the case to ensure on-going affordability for these tenants the Council caps rents at the relevant LHA rate for the property type.

To support residents on lower incomes or in financial hardship who are not in receipt of benefits, we are introducing a new hardship fund, allocating £30,000 to support in specific cases of hardship.

The HRA has been running at a deficit now for a number of years, mainly due to the requirement by the government to reduce social and affordable rents by 1% per annum for the four years starting in 2016/17.

This coupled with other one-off costs, such as the waking watch and bringing the service back in-house has meant that increasing rents by the maximum 7.7% is essential to ensure the HRA comes back to a surplus position over time.

In addition the HRA needs to work towards a surplus so that should unforeseen capital expenditure be required the HRA has sufficient revenue resources to finance the undertaking of additional borrowing (for example to finance future requirements in relation to net zero carbon).

5.2. **Non Dwelling Rents -** Garage rents are to remain the same in 2024/25.

5.3. **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week.

5.4. **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependent on bedroom size.

5.5. **Investment Income** – This consists of interest accruing on HRA balances. The budget for 2024/25 of £822k is based on achieving an average interest rate of 4.7%.

6. The Housing Revenue Account Reserves

6.1. Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure. The Section 151 Officer is responsible for providing advice, so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set and maintained at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account their advice may require a report to be made to the council under Section 114 of the Local Government Finance Act 1988.

6.2. The council operates three main HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve:

6.3. **Housing Revenue Account Balance Reserve** – This reserve holds the accumulated balance of prior year surpluses and deficits relating to the HRA. Accordingly, it is used to draw down to budgeted deficit for 2024/25 and smooth out any peaks and troughs within the 30 year business plan. As at 1 April 2024 the forecast reserve balance is £4.63m.

6.4. **Housing Revenue Account Major Repairs Reserve** – The funding held in this reserve is used to fund the Major Repair schemes included on the capital programme, enabling the council to maintain the housing stock in a good condition. The council currently maintains its social housing to Decent Homes Plus standard.

An amount equivalent to the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. In-line with the depreciation calculation, the estimated transfer to the Major

Repairs Reserve for 2024/25 is £4.353m. As at 1 April 2024 the forecast reserve balance is £15m.

6.5. **HRA New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. As at 1 April 2024 the forecast reserve balance is nil, due to it being budgeted to be fully utilised in 2023/24 Capital Programme. Annually the budget was set at £300k for a contribution to this reserve, but this will be reduced to finance in part the revenue impact of new acquisitions. As at 1 April 2024 the forecast reserve balance is £0m.

6.6. These reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. A summary of the projected reserves, allowing for the budget proposals, is shown in Table 3 below for information.

Table 3 HRA Reserves

Reserves	31 Mar 24	Movement	31 Mar 25
	£000	£000	£000
HRA - Balances Reserve	4,631	-113	4,518
HRA - New Prop/ Repairs Reserve	0	0	0
HRA - Major Repairs Reserve	15,062	-3,447	11,615
Total	**19,693**	**(3,560)**	**16,133**

7. The HRA Capital Programmes for 2024/25 to 2027/28

7.1. The proposed capital programme for 2024/25 totals £25.746m, with a further £47.8m programmed for the following three financial years, resulting in a capital spend over the four year programme totalling £73.54m.

7.2. **Annex 1** contains the full breakdown of the HRA Capital Programme.

7.3. Key schemes included within the four year programme are:

- **Tower Block Works** - £20.259m over three years. The budget for the tower block works including cladding replacement has been reviewed and provisionally reprofiled across the financial years 2024-2027 whilst we are in the design phase of the project These works are largely funded by external grants from the Building Safety Fund and Social Housing Decarbonisation Fund which are forecast to total £13.91m.

- **Structural Repairs -** £2.3m over four years, this budget covers the major structural repairs to our housing stock such as balcony renewal.
- **Acquisitions/Development Programme** - £32.4m over four years, financed through borrowing and other sources of capital finance has been factored into the programme and revenue assumptions.
- **Churchfields and Royal Crescent -** The major refurbishment schemes at Churchfields and Royal Crescent have been reprofiled from 2023/24 to 2024/25.

8. 30 year HRA Business Plan

8.1. When considering the annual budget and effects of inflation (measured by CPI and RPI), to ensure the HRA remains sustainable in the longer term a review of the HRA 30 year business plan has been undertaken.

8.2. However in order to produce a business plan certain assumptions have to be made in order to forecast both expenditure and income. The two key indices used within the business plan are the Consumer Price Index (CPI) and Retail Price Index (RPI).

8.3. Income to the HRA is linked in the main to CPI. The current business plan assumes a CPI + 1% increase annually for rental income, the maximum allowed under statute. Members have the authority to freeze rental income or set a rent increase below CPI +1%. However the financial impact on the business plan would be significant if this was agreed and it would take longer to make a surplus. It would also limit the revenue resources to the HRA in the affordability to undertake additional borrowing, if required, to deal with emerging issues such as net zero carbon.

8.4. Expenditure is mainly linked to RPI in the business plan model and this is also subject to variations over the term of the business plan. The current assumptions are for RPI to return to around 3% in the short/medium term.

8.5. Comparing the previous business plan assumptions to the latest, it can be seen that the current business plan model doesn't generate as higher surpluses as previously forecast.

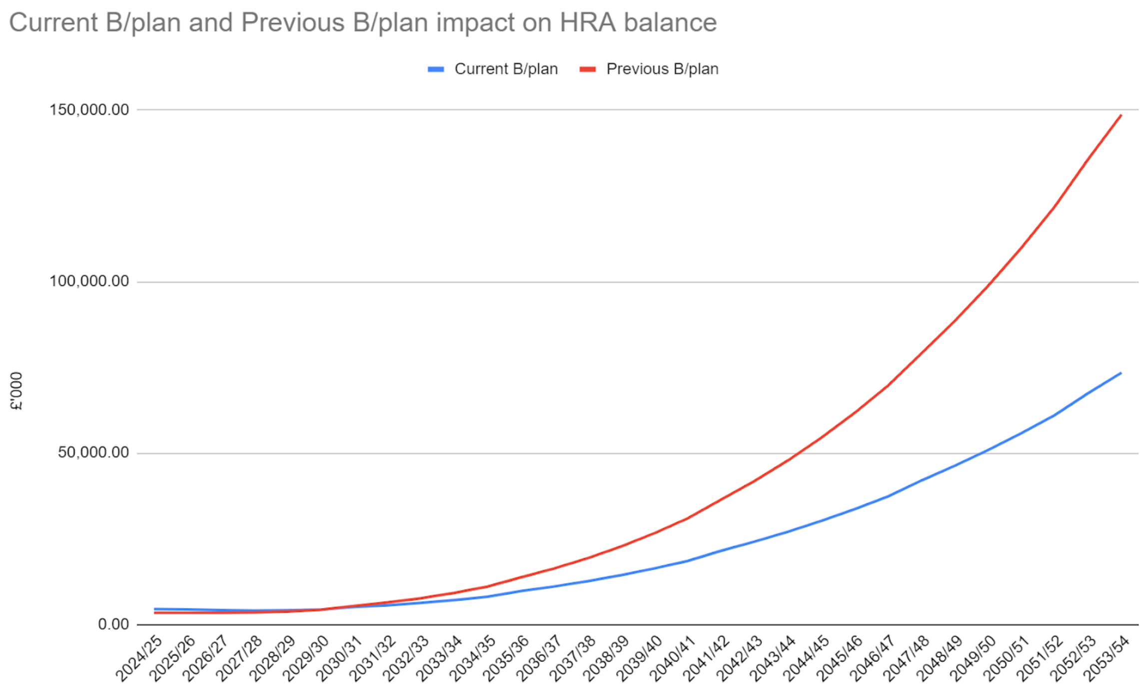
8.6. This is as a result of a higher interest environment, meaning the budgeted cost of borrowing is now higher than forecast in prior years, not only in the short term, but for the remaining duration of the business plan.

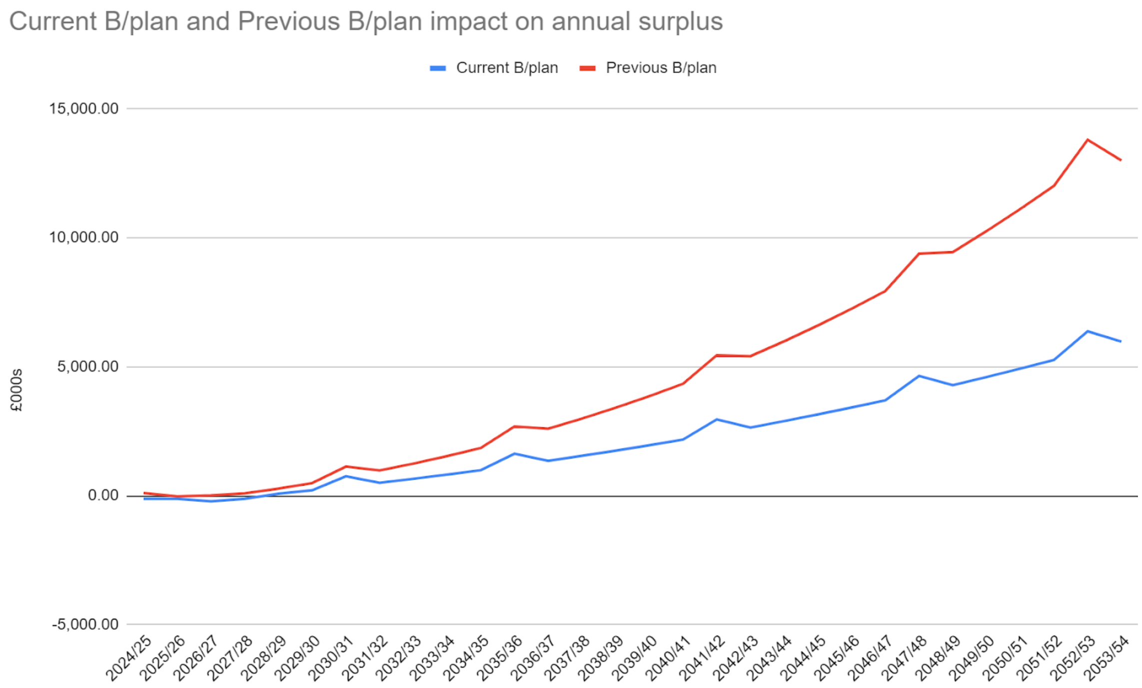
8.7. In addition RPI is slightly higher than CPI + 1% currently, this means costs may rise in the HRA faster than rental income narrowing the gap further.

8.8. However, at least in the short term, it's important to keep rent levels at their maximum possible level as both indexes have seen significant changes over recent months and this looks set to continue.

8.9. HRA balances are forecast to be healthier in the short term as the budgeted deficit forecast for 2023/24 is not anticipated to be as high, meaning that any impact of lower surpluses hits later years.

8.10. The charts below show the current overall position of the HRA based on these assumptions over the next 30 years and compares this to the previous business plan:





8.11. **New Build and Acquisition Programme**

To date the Council has delivered 150 additional homes over the last nine years, with funding already in place to deliver additional homes, including £8.1m per annum over the 4 year capital programme and an additional £19.485m built into the 23/24 programme.

As part of the commitment to deliver additional units an increase in budget is required to further facilitate the HRAs intended acquisition programme. The initial £8.1m and the budget factored into 23/24 reinforce this commitment, but more is needed to realise the commitment to deliver 400 units. The council has made a great start against this 400 home target with 123 homes already agreed or in negotiation and will be starting construction on a further 47 this year on land already owned by the council.

A further report will be brought back to members in the early part of 24/25 to update on progress and to report the budget required to complete the delivery of these units.

This investment should also have a direct impact on homelessness in the district by creating additional units of affordable housing, which will provide a financial benefit for the General Fund by reducing costs in that service area. In the last few years the district has seen a reduction in the amount of affordable private rented accommodation in the district, through a combination of people using previously rented accommodation as a place to now work by the coast or maximising income through Airbnb.

8.12. **Financing the Business Plan**

The main source of income for the HRA is the rents paid by council tenants. From 1st April 2020 the Government announced that council landlords could increase their rents again by CPI + 1% for a period of 5 years. For 2023/24 the government implemented a cap of 7% for rental increases due to high inflation, this has now returned to a CPI 1% permitted increase.

In addition the HRA receives income from other services such as service charges for services provided over those covered by their rental charges.

As expenditure is split between revenue and capital, resources to finance that expenditure are also split between revenue and capital. The key financing streams are:

Revenue:

- Dwelling Rents (from both social and affordable rents)
- Non-dwelling Rents (from garage rentals, aerials on roof tops etc.)
- Charge for services and facilities (charges for services not included in rental)
- Contributions towards expenditure (leaseholder charges, rechargeable repairs, other income)

Capital

- Major Repairs Reserve (revenue monies are set aside annually to fund major capital expenditure on dwellings)
- New Properties Reserve (revenue monies set aside to build new dwellings)
- Capital Receipts (from sales of dwellings or other assets)

- Borrowing

9. Budget Estimates

9.1. The estimates are considered to be robust and have been subject to significant review and scrutiny by the Section 151 Officer, the Corporate Management Team, and Financial Services Officers.

9.2. Realistic assumptions have also been incorporated with regards to inflationary increases for 2023/24. This includes a 5.75% increase in staff pay that has been agreed with the unions, and inflationary budget adjustments for energy and other key expenditure lines. Sufficient budgetary requirements have also been included for the continuation of the waking watch service.

9.3. Regardless of the level of planning or security, budget estimates are inherently uncertain due to their forward looking nature. Key risks that could result in a departure from this budget during the forthcoming financial year include:

- **Interest Income** - reduced income may be achieved either due to a reduction in interest rates, or accelerated expenditure which would reduce the levels of balances against which the interest is accrued.
- **Debt interest** - although the HRA is under borrowed, the budget is based on current interest rate forecasts and even a small increase in interest rates would have a detrimental effect on the HRAs current budget deficit.
- **Repairs and Maintenance** - There is still a significant degree of catch up works being undertaken, following the return of the service from EKH. Until the major works in the capital programme have been completed and the overall R&M schedules have cleared the backlog, there remains a risk that this budget line may be stretched.
- **Waking Watch -** Current arrangements are fully financed, but these could vary in future depending on the requirements of Kent Fire and Rescue Service.

10. Adequacy of HRA Reserves

10.1. The level of HRA reserves remains relatively healthy overall.

10.2. HRA balances are in excess of the minimum £1m limit, even after the pressure of forecast annual deficits in the HRA in the short term. The Business Plan projects that balances will not significantly drop in the short term but should be maintained as there are still substantial risks, as outlined above, to current and future budget forecasting.

10.3. The New Properties Reserve is likely to be fully utilised by the end of 2023/24 due to further progression of the Council's new build housing and refurbishment schemes. This is as expected, in future years the reserve will have contributions and use of the same value.

10.4. The Major Repairs Reserve reduces over the next few years due to the size of the capital programme although it will still maintain a healthy balance. The forecast budget will reduce the reserve to £6.853m at the end of 2026/27.

11. Options

11.1. Council could choose not to accept some or all of the proposals. This could include the proposed housing rent increases. However, Council would also need to consider the impact on the business plan and potential ways of bridging the budget gap if the level of balances fall below the recommended amount.

Contact Officer: Chris Blundell (Director of Corporate Services - Section 151)
Reporting to: Colin Carmichael (Interim Chief Executive)

Annex List

Annex 1: Housing Revenue Account Capital Programme 2023-27 Budget

Background Papers

Title: Held in Financial Services

Corporate Consultation

Finance: N/A
Legal: Ingrid Brown (Head of Legal and Democracy & Monitoring Officer)