

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**CABINET – TUESDAY, 9 JANUARY 2024**



<b>Title of Report</b>	<b>HOUSING REVENUE ACCOUNT BUDGET AND RENTS 2024/25</b>	
<b>Presented by</b>	Councillor Andrew Woodman Housing, Property & Customer Services Portfolio Holder PH Briefed <input type="checkbox"/> Yes	
<b>Background Papers</b>	<a href="#">Housing Revenue Account Budget and Rents 2023/24 - Council 23 February 2023</a>	<b>Public Report:</b> Yes
		<b>Key Decision:</b> Yes
<b>Financial Implications</b>	This report sets out the draft Housing Revenue Account (HRA) budget including both capital and revenue for 2024/25 to 2028/29.  It also sets out the proposed increase in rents along with other planned changes to the fees and charges levied by the Council for some services delivered within the scope of the HRA.	
	<b>Signed off by the Section 151 Officer:</b> Yes	
<b>Legal Implications</b>	No direct legal implications arising.	
	<b>Signed off by the Deputy Monitoring Officer:</b> Yes	
<b>Staffing and Corporate Implications</b>	No direct staffing or corporate implications arising.	
	<b>Signed off by the Head of Paid Service:</b> Yes	
<b>Purpose of Report</b>	This report seeks Cabinet approval to consult on the draft Housing Revenue Account budget and Rents for 2024/25 and the proposals contained within. The outcome of this consultation exercise will be fed back into subsequent reports to Cabinet and Council to seek approval for the final budget in February 2024.	
<b>Reason for Decision</b>	To allow Cabinet to consider the Housing Revenue Account Budget 2024/25.	
<b>Recommendations</b>	<b>CABINET IS RECOMMENDED TO PROPOSE THE FOLLOWING FOR CONSULTATION:</b> <ul style="list-style-type: none"> <li>• <b>DRAFT 2024/25 HOUSING REVENUE ACCOUNT BUDGET</b></li> <li>• <b>RENT INCREASE</b></li> </ul>	

	<ul style="list-style-type: none"><li>• <b>DRAFT MTFP FOR 2024/25 TO 2028/29</b></li><li>• <b>DRAFT 2024/25 BUDGET PROPOSALS</b></li><li>• <b>DRAFT 2024/25 FEES AND CHARGES</b></li></ul> <p><b>AS CONTAINED WITHIN THIS REPORT.</b></p>
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## **1.0 BACKGROUND AND DISCUSSION**

1.0.1 The Housing Revenue Account (HRA) Medium Term Financial Plan (MTFP) sets out the financial strategic direction for the HRA and is updated as it evolves and develops throughout the year, to form the framework for financial planning.

1.0.2 The purpose of the HRA MTFP is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are effectively managed and are able to deliver the aspirations of the Council, as set out in the Council Plan, over the medium term.

### **1.1 Context**

1.1.1 The Council is setting the HRA budget at a time when it and residents face a range of issues to contend with. In broad terms these can be split into two categories: economic and housing. Each of these is explored below:

#### **1.2 Economic**

1.2.2 The recent report by the Office of Budget Responsibility (OBR) in respect of the Economic and Fiscal Outlook describes how the economy has proved to be more resilient to the shocks of the Covid pandemic and energy crisis than anticipated. GDP stood nearly 2% above its pre-pandemic level and around 3% above the OBR March forecast but it is now expected the economy will grow more slowly over the medium term.

1.2.3 Inflation is expected to fall below 5% by the end of the calendar year but not returning to its 2% target until the first half of 2025.

#### **1.3 Housing**

1.3.1 In response to health and safety issues which came in to focus following the 2017 Grenfell tragedy as well as several disrepair cases and fatalities highlighted in the media, the Social Housing Act (2023) has received royal assent. The Act gives greater enforcement powers to the Regulator for Social Housing on breaches of consumer standards.

1.3.2 Recognising the wider context within which the budget is being set, the Council made improvements to financial management in the last 12 months and has continued to use processes to develop its draft budget plans for 2024/25 and over the medium term. This recognises the greater focus within the organisation on its finances. The process, coupled with that used in previous years, has involved:

- Services completing budget proposals to justify the need for any changes to the budget.

- Budget STAR Chamber sessions between Directors and Heads of Service.
- Regular reporting to the Corporate Leadership Team on the Council's overall budget position.
- Engagement with councillors through Portfolio Holder briefings, Strategy Group and an all-councillor budget briefing. Further engagement is planned through scrutiny, consultation with the public and the HRA tenants' forum.

## **1.4 Budget Assumptions**

1.4.1 The following budget assumptions have been built into the forecast:

- Pay award – additional 2.75% for 2023/24 (4% had been included within the 2023/24 budgets), 3% in 2024/25 and 2% thereafter.
- Each budget line for the HRA has been reviewed to reflect the forecast actual value for future years, taking into account contract values, expected activity levels and previous years' expenditure. With inflation added as per contracts.
- Staffing requirements have been considered to ensure the delivery of an effective housing service with best outcomes for tenants.
- Contracts have been linked to the Consumer Price Index (CPI)/ Retail Price Index (RPI) as per individual agreements.
- Inflation – fuel and utilities inflation are very volatile which was reflected in the large increases in the budget in 2023/24 of between 30% and 100%. After reviewing the current prices and future indications based on the best information available, the decision has been taken that there is sufficient provision in the draft 2024/25 budget in to meet demand.
- Fees and charges – there have been some fees and charges increased by inflation and where appropriate these have taken been into account where demand has changed (please see section 2.3 for more detailed information on fees and charges).
- Rents are assumed to increase as per the rent standard at the 12 month CPI from September 2023 which was 6.7% plus 1%, a total increase of 7.7%.
- Number of properties sold through Right to Buy is assumed to reduce from previous years' estimate of 44 down to 20 per year. Lower numbers of homes have been sold through Right to Buy so far in the current financial year. This can be viewed in the context of cost of living increases and high interest rates.
- Future borrowing is assumed to cost 5.5% in interest.

## **2.0 HOUSING REVENUE ACCOUNT BUDGET AND MTFs 2024/25 to 2028/29**

### **2.1 HRA Budget Summary**

2.1.1 Appendix 1 shows the HRA budget position for 2023/24 and the budget for 2024/25 to 2028/29.

2.1.2 Table 1 below highlights that in 2024/25 the budgeted net operating expenditure has reduced by £1.995m compared to 2023/24 whilst the anticipated income has increased by £1.161m.

**Table 1: Changes to the Housing Revenue Account budget from previous year**

	<b>2023/24</b>	<b>2024/25</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Income	-20,139	-21,300	-1,161
Operating Expenditure	17,077	18,838	1,761
<b>Operating (surplus)/deficit</b>	<b>-3,062</b>	<b>-2,462</b>	<b>600</b>
Appropriations	7,541	4,946	-2,595
<b>Net (surplus)/deficit</b>	<b>4,479</b>	<b>2,484</b>	<b>-1,995</b>

2.1.3 The appropriations in the table are the use of the HRA working balance to fund the capital programme as well as contributing to the loan repayment reserve. These appropriations are significantly lower in 2024/25 as the HRA balance has a lower capacity to fund capital.

## 2.2 Rents

2.2.1 As a self-financing account, the HRA's main source of income is the rents tenants pay for their homes. From 2016/17 to 2020/21 the Welfare Reform Act (2016) required all social rents to be reduced by 1% each year. This negatively impacted on the budget and the Council's ability to fund improvements. In 2023/24 a rent cap was imposed which capped rent increases at 7% which was 3.1% below inflation. This real terms rent cut further impacted on available funding.

2.2.2 For 2024/25 the Council proposes to increase the rents by 7.7% which is in line with the Rent Standard of CPI +1% for 2024/25. (The rent standard is a policy that registered providers of social housing in England must comply with and is overseen by the Regulator of Social Housing.) The increase is expected to result in a total rental income of £20.2 million in 2024/25.

2.2.3 The average weekly rent for the 3,965 Social Rent properties, will increase from £92.98 to £99.28, an average increase of £6.30 per week. Those tenants who are more vulnerable are protected via benefits increases above this level, meaning that the worst off in the district will be no worse off.

## 2.3 Budget Proposals

2.3.1 Appendix 2 summarises the most significant proposed changes to the HRA budgets. Looking at 2024/25 specifically, the total budget proposals of £0.6m include:

- **Net increase in income totalling £1.24m.** This is largely due to the increased rental income described in paragraph 2.2.1.
- **Cost pressures totalling £3.68m.** The most significant cost pressures relate to:
  - repairs backlog costs totalling £2m.
  - Inflation of £0.3m which is across the service but £0.094m recharges from general fund and £0.046m heating maintenance inflation are particularly significant.
  - pay related costs are due to increase by £0.61m, due to ensuring staffing matches the demand for the service
  - corporate pressures totalling £0.7m which is the increase in depreciation costs which increase due to inflation and the changing number of properties and works.
- **Efficiencies totalling £1.85m.** This is largely due to the comprehensive review of all budget lines ensuring all income and all expenditure is budgeted for at the correct level.

## 2.4 Fees and charges

2.4.1 In addition to the rental charged for dwellings, there are a number of other fees and charges in relation to services provided within the HRA. Some properties have service charges, on top of the rent, to pay for specific services relevant to their properties. The proposed fees and charges for 2024/25 are listed in Appendix 3. The main changes are listed below:

- Most service charges increased by 6.7%, September CPI in line with the corporate charging policy.
- A new charge for use of storage and charging for mobility scooters. The amount of charge depends on the scheme.

## 3.0 HRA CAPITAL PROGRAMME 2024/25 TO 2028/29

3.1.1 The proposed HRA capital programme is outlined in Appendix 4. In 2023/24 governance improvements were made via the Capital Strategy for managing capital programmes through their life cycle. In 2024/25, the programme has again been split into Approved and Development Pool to allow development schemes in early stages to go through further governance before being allocated a budget appropriate to complete each stage of development. A summary of the capital programme is shown in Table 2.

**Table 2: Summary Capital Programme**

	<b>2024/25 Budget £'000</b>	<b>2025/26 Indicative £'000</b>	<b>2026/27 Indicative £'000</b>	<b>2027/28 Indicative £'000</b>	<b>2028/29 Indicative £'000</b>	<b>Total £'000</b>
Stock Investment	10,025	7,400	7,400	7,400	7,400	39,625
Estate Improvements	670	500	500	500	500	2,670

Other Capital	1,430	600	600	600	600	3,830
Total Approved Programme	12,125	8,500	8,500	8,500	8,500	46,125
Total Development Pool	3,400	5,810	2,640	1,190	4,660	17,700
<b>Housing Revenue Account Total</b>	<b>15,525</b>	<b>14,310</b>	<b>11,140</b>	<b>9,690</b>	<b>13,160</b>	<b>63,825</b>

3.1.2 Over the five-year period, the total programme comes to £63.825m, an increase of £1.3m over the previous five-year programme. The difference is mainly due to a £3.8m increase in New Supply offset by a £2m increase in Home Improvement Programme.

- **New Supply:** The programme has been extended to include sites being initially developed by registered providers.
- **Home Improvement Programme:** The increase of £2million is to cover the cost of a backlog of works.

Work has commenced on a revised Asset Management and Business Plan for the HRA. This will complete during 2024/5 and will inform the future programming of the HRA in future years.

## 3.2 Funding the Capital Programme

3.2.1 The capital programme is funded from a variety of sources, including revenue, grants, capital receipts and borrowing. Table 3 below summarises the funding sources identified for each year of the proposed HRA capital programme.

**Table 3: Sources of funding for the capital programme**

	<b>2024/25 Budget £'000</b>	<b>2025/26 Indicative £'000</b>	<b>2026/27 Indicative £'000</b>	<b>2027/28 Indicative £'000</b>	<b>2028/29 Indicative £'000</b>
Reserves	4,349	3,642	3,225	3,035	2,219
Capital Receipts	6,230	2,968	2,452	2,001	3,389
Revenue contributions	2,280	0	0	0	0
External Borrowing	2,666	7,700	5,463	4,654	7,552
<b>Housing Revenue Account Total</b>	<b>15,525</b>	<b>14,310</b>	<b>11,140</b>	<b>9,690</b>	<b>13,160</b>

3.2.2 Table 3, above, shows a borrowing requirement of £28m over five years to fund the programme. This has increased by £3.6m compared to the five year plan from 2023/24. The increase is due to a combination of reserves being used to fund 2023/24 as well as

the impact of inflation and other service pressures on the availability of revenue contributions to capital.

#### 4.0 DEBT

- 4.1 The loan balance for the HRA is forecast to be £51.1m at the end of 2023/24. There are annuity loan repayments of approximately £1.2m to make each year, these repayments are usually funded from working balances but once working balances reach the £1m minimum, they will be funded from other capital resources.
- 4.2 There are also loans to be repaid at maturity. The next of these to repay is a £10m repayment in 2036/37. In accordance with the strategy agreed in 2012 when self-financing for the HRA was introduced, the Council sets aside funding each year in a Debt Repayment Reserve to ensure there is sufficient funding to repay debt when it matures. The budget assumes £2.7m is set aside in 2024/25 from capital resources in order to make the scheduled repayments at maturity, this increases each year as there is further borrowing to finance the capital programme.
- 4.3 The HRA business plan is to be reviewed over the next few months and it will be investigated whether the approach of using a debt repayment reserve presents the best approach for a well-funded HRA and best use of resources. The findings will be presented to Scrutiny and Cabinet.

#### 5.0 RESERVES

- 5.1 The Council has a number of reserves for the use of the HRA. Most of the reserves are used for capital financing as shown in 3.2.1. Table 4 shows the projected reserve balances over the MTFS period.

**Table 4: Reserve balances**

<b>Reserve</b>	<b>31.3.25 £000</b>	<b>31.3.26 £000</b>	<b>31.3.27 £000</b>	<b>31.3.28 £000</b>	<b>31.3.29 £000</b>
Major Repairs Reserve	0	0	0	0	0
Capital Receipts	4,605	4,400	4,711	5,472	4,845
Debt Repayment Reserve	4,764	7,956	11,556	15,473	19,801
<b>Total Capital Reserves</b>	<b>9,369</b>	<b>12,356</b>	<b>16,267</b>	<b>20,945</b>	<b>24,646</b>
HRA Reserve	3,618	1,135	1,000	968	747
Ear Marked Reserves	510	510	510	510	510
<b>Total Revenue Reserves</b>	<b>4,128</b>	<b>1,645</b>	<b>1,510</b>	<b>1,478</b>	<b>1,257</b>

## 6.0 KEY RISKS TO THE BUDGET

6.1 Table 5 provides an assessment of the key risk areas to determine the robustness of the estimates and adequacy of reserves included in the HRA budgets:

**Table 5: Key Risks to the Budget**

Area	Y/N	Comments
Is performance against the current year's budget on track and where variances are evident, ongoing and unavoidable, are they appropriately reflected in the plans?	Y	The 2023/24 financial monitoring is showing a projected overspend of £0.436m on the HRA. Work is currently on-going within services to mitigate these pressures and minimise any drawdown from reserves. The on-going and unavailable pressures, alongside potential reductions in reserve levels, have been factored into budget plans for 2024/25 and the medium term.
The reasonableness of the underlying budget assumptions	Y	External review has also been undertaken by the treasury advisers, Arlingclose, on the Treasury Management Strategy.
The alignment of resources with the Council's service and organisational priorities	Y	Resources are aligned to the current priorities of the Council. A new Council Delivery Plan (CDP) has been developed and was approved by Council on 14 November 2023. The CDP is aligned to the resources available and risks faced by the Council.
A review of the major risks associated with the budget	Y	The major risks within the budget have been assessed and are set out in the budget report, including mitigations and strategies about how these are being managed.
The availability of un-earmarked reserves to meet unforeseen cost pressures	Y	The Council has a minimum level of reserves for HRA (£1m). This level is to be reviewed as part of the HRA business planning process.
Have realistic income targets been set and 'at risk' external funding been identified?	Y	An assessment of income targets has been undertaken as part of the development of the draft budget.  The most significant area of income is from dwelling rents. The budget for this is produced with reference to current stock levels and expected stock loss, reconciling data and changes from previous year to current year.  Fees and charges have been increased, where it is appropriate to do so, in accordance with the Council's Corporate Charging Policy.
Has a reasonable estimate of demand cost pressures been made?	Y	The enhanced budget process used in the development of the draft budget has improved the reasonableness of estimates.



Area	Y/N	Comments
Has a reasonable estimate of future income been made?	Y	The budget proposals presented by services were reviewed by finance and subject to budget challenge sessions.
Have one-off cost pressures been identified?	Y	All pressures have been reviewed to assess if they are one-off or ongoing in nature. Services will need to ensure exit plans exist for one off expenditure.
Are arrangements for monitoring and reporting performance against the budget plans robust?	Y	<p>For 2023/24, quarterly financial reporting to Cabinet and Scrutiny Committee has been introduced.</p> <p>The new finance system is intended to bring enhanced financial reporting for budget holders to support robust and regular monitoring of budgets.</p> <p>The Council will also need to enhance its development, monitoring and delivery of its plans to deliver balanced budgets over the medium term.</p>
Is there a reasonable contingency available to cover the financial risks faced by the Council?	Y	The Council has incorporated estimates for pay award, inflation and demand pressures into its budget. It has also made provisions for key income streams not materialising for business rates and council tax.
Is there a reasonable level of reserves, which could be used to mitigate any issues arising and are they reducing as the risks decrease?	Y	The Council has a range of earmarked, MTFP and minimum levels of reserves to ensure its financial stability.
The strength of the financial management function and reporting arrangements?	Y & N	<p>The Council implemented a new financial system in April 2023 to improve its reporting. Further enhancements to the system are required in the short-term to deliver this.</p> <p>A review of the Financial Procedures Rules is planned.</p>
Have the previous years Accounts been signed off by external audit to verify balances?	N	<p>The Council's Accounts for 2021/22 are currently being audited. The audit for the 2022/23 accounts will commence in Spring 2024.</p> <p>Budget estimates and reserves balances for 2024/25 and beyond are based on the latest information incorporated into the 2021/22 and 2022/23 accounts.</p>
Has there been a degree and quality of engagement with colleagues and councillors in the process to develop and construct the budget?	Y	<p>There has been a continuation of the improvements introduced to the budget setting process last year.</p> <p>This has included a series of budget challenge sessions between the Directors and Heads of Service, as well as engagement with Corporate Leadership Team, Portfolio Holders, Strategy Group and an all councillor briefing.</p>

## 7.0 CONCLUSIONS AND NEXT STEPS

- 7.1 Based on the assumptions made for the HRA in the Draft Budget 2024/25 and MTFP for 2024-29 for income and expenditure, the Council can set a balanced HRA budget for 2024/25 and indicative budgets to 2028/29.
- 7.2 There is still further work to be carried out between the draft and final budget position to make any further changes to budget proposals, further detailed work on net financing costs, capital financing, ensuring the minimum balance for the HRA is maintained and technical finance work around recharges. There will also be equality impact assessments carried out during this period.
- 7.3 Shown below in Table 5 is the key deadlines and meetings Finance are working towards in the budget approval cycle:

**Table 5: Budget Timetable**

<b>Key Meetings in Budget Approval Cycle</b>	<b>Date</b>
Corporate Scrutiny Meeting - to scrutinise draft budgets and related strategies	04/01/2024
Cabinet Meeting - to consider draft budget proposals, related strategies and launch consultation	09/01/2024
Cabinet Meeting - to approve the 2024/25 Council Tax Base	09/01/2024
Commencement of statutory consultation	10/01/2024
End of statutory consultation	23/01/2024
Cabinet Meeting - to receive consultation feedback and recommend final budget to Council	31/01/2024
Council - approval of final budget and MTFP	22/02/2024

- 7.4 As can be seen from the timelines above, we will be consulting with the public between 10 January and 23 January and will feedback these responses to Cabinet on 31 January when a final budget will be recommended.

## 8.0 EXEMPTION FROM CALL IN

- 8.1 The approval of the Chairman of the Council has been given to the exemption of the Council's Scrutiny Procedure rules in relation to the call-in of the decision on this item, since any call-in would prejudice the ability of the Council to commence the statutory consultation period commencing 10 January 2024. The Chairman has considered the timetable for the consultation period and agrees that the matter before Cabinet is urgent for this reason.

<b>Policies and other considerations, as appropriate</b>	
Council Priorities:	The budget provides funding for the Council to deliver against the priorities for the HRA.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	The equality impact assessment will be completed for the final budget to be presented to Cabinet.
Customer Impact:	Customers are likely to be impacted by the changes to rents, fees and charges.
Economic and Social Impact:	The HRA capital programme allocates £39.3m over five years to improve homes and in the same period, £17.7m on new homes to give home to more people.
Environment and Climate Change:	The budget includes a capital programme of Zero Carbon works to dwellings worth £13.8m.
Consultation/Community Engagement:	Corporate Scrutiny Committee 4 January 2024 Public consultation - 10 January to 23 January 2024 Parish and town councils, trade unions and the Federation of Small Businesses - 12 January to 23 January 2024. Tenants and Leaseholders Consultation Forum – date to be confirmed. The results of the above consultations will be detailed in the final report.
Risks:	The budgets will be monitored throughout the year to ensure the Council remains within its funding envelope and planned budget savings are delivered. Key risks to the budget are discussed in further detail in section 5 of the report.
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