CABINET

23 January 2024

Title: HRA Budget and Rent Setting for 2024/25 and Draft 30-Year Business Plan	
Report of the Cabinet Member for Community Leadership and Engagement and the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** Yes
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Summary

The Council as a stock owning local authority has an obligation to maintain a Housing Revenue Account (HRA) with a balanced budget. This is the income and expenditure relating to the management of the Council's housing stock. The Council holds and manages 16,407 social housing properties and provides services to 3,925 leaseholders.

2024/25 will be the last of the 5-year period of government rent regulation allowing maximum social rent increases of CPI + 1%. The 5-year period includes 2023/24 when uplifts were limited to 7% following the historically high inflation rates of that year.

Rents and certain service charges on HRA properties can be fully covered by Housing Benefit/Universal Credit if needed in most cases. The Council's Community Solutions department also offer support to tenants who need assistance with financial management and budgeting and income maximization. There are also Discretionary Housing Payments, and the Household Support Fund may be available for some eligible households who are struggling with their housing costs.

A 30-year HRA business plan has been modelled in considering the resources available to manage the housing stock and to inform the recommended rent levels and the HRA budgets for 2024/25 for both revenue and capital expenditure. These considerations include retaining the capacity to maintain and manage the existing stock, address requirements in new fire safety regulations and support estate renewal and regeneration of Council estates.

Recommendation(s)

The Cabinet is recommended to:

(i) Agree that rents for all general needs secure, affordable and sheltered housing accommodation be increased by 7.7%, in line with the Government's current rent policy of CPI +1% (with CPI for September 2023 of 6.7% being used as the base), meaning an increase to the average rent for general needs from £108.72 per week to £117.07 per week;

(ii) Agree the following service charges for tenants:

Services	**Weekly Charges 2024/25**	**Increase / (Reduction)**	**Basis of Increase**
Grounds Maintenance	£3.16	£0.23	CPI+1%
Caretaking	£8.03	£0.38	Cost Recovery
Cleaning	£3.86	£0.18	Cost Recovery
Estate Lighting	£4.34	nil	Cost Recovery
Concierge	£11.93	£0.85	CPI+1%
CCTV (SAMS)	£7.31	£0.52	CPI+1%
Safer Neighbourhood Charge	£0.60	£0.03	Cost Recovery
TV Aerials	£0.67	£0.05	CPI+1%

(iii) Agree that charges for heating and hot water be reduced by 5.5% in line with decreases in the estimated charges for 2024/25 provided by suppliers as follows:

Property size	Weekly Charges 2023/24	Weekly Charge 2024/25
Bedsit	£29.52	£27.89
1 bedroom	£31.56	£29.82
2 bedroom	£38.21	£36.11
3 bedroom	£38.92	£36.78
4 bedroom	£39.94	£37.74

(iv) Note that following the annual review of current charges and insight from the provider, water charges shall increase by 10% while sewerage charges shall remain at the current year's rates;

(v) Agree the HRA Income and Expenditure budget for 2024/25 and note the changes from the 2023/24 budget, as detailed in section 3 of this report.

(vi) Agree a £24.7m capital programme for the HRA in 2024/25 and note the indicative 4-year HRA capital programme detailed in section 4 of the report;

(vii) Agree that the above charges take effect from 1 April 2024;

(viii) Note the draft HRA 30-year business plan, as detailed in section 2 of the report, and the indicative 30-year financial forecasts set out in Appendices A and B to the report; and

(ix) Note that the final version of the HRA Business Plan shall be presented to Cabinet in March 2024 after a comprehensive review by the Strategic Director, Resources.

Reason(s)

The recommendations in this report align with the Council's priority for residents to live in good housing and avoid becoming homeless. This is alongside helping to facilitate inclusive growth and regeneration in the borough through the Estate Renewal programme.

The Housing Revenue Account enables the Council to continue to provide affordable housing for residents in well maintained accommodation as well as support the Council's investment in new homes.

The Council annually reviews housing rents and other charges to ensure they comply with government policy and deliver on the priorities of the Council to residents. It also has a duty to give prior notification to tenants before the charges can be applied from the new financial year.

Section 76 of the Local Government and Housing Act 1989 requires Local Authorities with a Housing Revenue Account (HRA) to set a budget for the account, using valid assumptions, that avoids a deficit.

Furthermore, it is considered best practice for the Council to prepare a 30-Year Business Plan for the HRA on an annual basis. The purpose of this exercise is to keep the long-term financial viability of the HRA under regular review.

1. Introduction and Background

Legislative context

1.1 The Local Government and Housing Act 1989 requires the Council to manage its housing stock, and to balance its accounts for the housing stock as a ring-fenced account. This means the Housing Revenue Account (HRA) does not receive any subsidy from the Government, or from Council Tax, nor is it allowed to subsidise the General Fund. The legislation sets out those items that can be charged to the HRA and forms the basis of the income and expenditure budget detailed in section 3 of this report.

1.2 The Localism Act 2011 introduced a new method of managing the HRA called self-financing whereby in return for taking a share of the national housing debt, local authorities could retain any rental surpluses, and manage their HRA in the future. It is good practice therefore for Councils to produce a minimum 30-year business plan which forecasts the income that will be received alongside the expenditure required to manage and maintain the properties.

Policy context

1.3 There have been several changes in the external environment over the last 12 years which have impacted on the HRA business plan. The most significant of these was the one per cent rent reduction policy which was imposed through the Welfare Reform and Work Act 2016 which ended in 2019/20. This forced all providers of social housing to reduce rents by one per cent for four years from April 2016. The policy replaced the previous national rent policy of an increase of CPI plus one per cent, which was reinstated again from 2020/21. However, there was a further policy intervention for 2023/24 where the CPI + 1% uplift was capped at 7% in the face of the historically high inflation levels (peaking at 11.1%) of that year. The cumulative impact of the rent reductions and limits on the business plan is significant and affects the level of resource available within the HRA to maintain the stock and increase provision of Social Housing.

1.4 The Government published its Policy on Social Rents in February 2019 following a consultation. It stipulated that local authority social rents would come under rent regulation and be subject to the Rent Standard from April 2020. The Standard includes an annual rent increase cap of CPI plus 1% lasting for five years to 2024/25.

1.5 There are many new pressures on expenditure that were not considered in the HRA debt settlement in 2012 that underpins the current self-financing HRA framework. These include the effects of Brexit, Grenfell and the impact on fire regulations and cladding, the recent damp and mould issues highlighted by the death of a child in Rochdale, a global pandemic lasting 3 years together with escalating geopolitical tensions in Ukraine, Israel and other places in the world which has affected supply chains, human resource availability and ultimately fuelled inflation.

1.6 The income restrictions and expenditure pressures combine to deliver a picture that is completely different from 2012 and the expectations placed on HRAs at the time. While the government has responded to these issues with some legislation and announcement of new proposals, there has been little specific funding for social housing providers. This means the investment required to maintain and improve the HRA stock, meet new green policies and consumers standards demanded by the Regulator of Social Housing all rely on the rental income, capital receipts largely from Right to Buy disposals and borrowing.

2. Housing Revenue Account 30 Year Business Plan

2.1 The 30-year business plan of the Housing Revenue Account details how the Council will use income generated from rents and other sources including borrowing to manage and maintain the housing stock as well as support development of new properties in the borough over that period. The financial business plan model provides a view based on a set of assumption on whether the Council can:

- maintain a minimum HRA working balance (or at least a positive one); and afford to repay its housing loans as they fall due; and
- meet its obligations to maintain the housing stock within the Decent Homes Standard (DHS) and any other legislative building requirements; and
- meet the requirements of the Regulator of Social Housing (RSH) in terms of the Rent Standard and the Consumer Standard.

2.2 The assumptions used are based on evidence from the Council's rent and asset management systems, budgets proposals from service managers in relation to the management and maintenance of the housing stock comprising of 16,407 tenanted stock and 3,925 leaseholders. The HRA's portfolio of loans and internal debt have also been considered as part of this business plan review alongside current economic forecasts of inflation for future years based on the latest data from the Office for Budget Responsibility. A list of the key assumptions is attached to the report as Appendix C while the 2024/25 budget proposal is detailed in section 3 of this report.

2.3 The base business plan which has the proposed budget for 2024/25 as Year 1 and the base from which future forecasts in the model have been made is attached to this report as Appendix A. This model also reflects the investment required to maintain the housing stock at decent homes standards. The investment need is based on a stock condition survey completed in 2018/19 but updated to reflect current prices and new requirements. A summary of the investment required for the next 30 years is also captured in Appendix A. The total amount over the 30 years after applying inflation is £1.8 billion. This figure does not include any assumptions for decarbonizing the stock which was estimated at between £870m and £1.0bn based on the Barking and Dagenham Net Zero Carbon Roadmaps and Framework report submitted to Cabinet in November 2023.

2.4 HRA opening debt for 2023/24 is £313.1m consisting of internal borrowing of £17.2m and external borrowing of £295.9m. The base plan estimates that this will grow to £987.3m by year 30 (2053/54) based on the assumption that the HRA will borrow to meet the investment required to maintain the stock as indicated by the stock condition survey. Interest on external loans specifically taken for the HRA are based on the rates agreed while historical internal borrowing arrangements are based on the Council's average cost of borrowing. Details of the interest assumptions including for new loans are provided in Appendix C.

2.5 These estimates, under the base model show that the Council's HRA will go into deficit by year 13 or 2036/37. This is largely driven by the significantly higher interest costs from the increased borrowing to fund the investment in the existing stock. After accounting for other sources of capital funding such as using Major Repairs Reserves, Revenue Contributions to Capital Expenditure, un-ringfenced HRA Capital Receipts and Leaseholder contributions, the base model still requires additional borrowing totalling £780.6m over 30 years to fund its capital expenditure.

HRA Business Plan Sensitivity Model

2.6 As the base model indicates the HRA will go into deficit by 2036/37 a Sensitivity Model was developed to determine the level of investment in the stock that the HRA can undertake and remain viable over 30 years. All other assumptions in this Sensitivity Model are identical to those assumed in the base model.

2.7 Under this model the HRA remains viable for 18 years, going into deficit in 2041/42 when the HRA is scheduled to make a debt repayment of £50m in that year. This extension in the number of years the HRA remains viable has been achieved by reducing the stock investment requirement by 33% or £600m to £1.2bn over 30 years. There is the additional option of refinancing the £50m debt repayment due in 2036/37 to extend the period of viability even further.

2.8 The reduced investment requirement in the Sensitivity Model has been used to inform the capital programme requested for approval for 2024/25 and the indicative budgets for the next 4 years. Also informing the 2024/25 programme is the Council's limited capacity to scale up its operations to undertake the investment requirement, given the current supply chain and labour issues faced by suppliers of maintenance services and procurement timescales. These delays and scaled down investments in the existing stock puts at risk the Council's ability to keep the stock at decent homes standard over the long term.

2.9 To mitigate this risk the Council is planning to undertake a new stock condition survey from 2024/25, spread over 4 years, for which budget provision has been made in the proposed 2024/25 capital programme. This will also support a planned review of the repairs and maintenance contracts with the aim of replacing them with more commercial based models that enable benchmarking to industry standards to help drive value for money. The new stock condition survey will also support better decision making around Estate Renewal projects to ensure they deliver savings to the HRA.

2.10 The Council is also restructuring its departments to make them more suited to current unpredictable external environment and new challenges confronting Councils. It is anticipated that the restructure will enable further efficiency savings to be delivered in the departments that support the HRA to further reduce costs and generate surplus to fund investments in the existing stock.

Key Business Risks

2.11 The scaled down capital programme in the medium to long term can impact on void levels which impacts on the rent income available to manage and maintain the stock as well as meet debt costs. It is anticipated that steps indicated in paragraphs 2.9 and 2.10 will enable the Council to increase its capacity to fund the whole of the investment required.

2.12 Interest rates remain high after the base rate was increased by Bank of England over a short period of time to 5.25% from the historical low rates of the last decade. The HRA under the base model will borrow at these higher rates if these rates continue into the medium to long term, however by basing the capital programme on the Sensitivity Model the Council ensures it keeps borrowing levels at a sustainable level.

2.13 2024/25 represents the last year of the allowed CPI plus 1% rent uplifts and the government are yet to indicate how much they would allow rents to increase after that year. The models currently prudently assume that the rents will go up by CPI only for the remainder of the 30 years of the plan.

3. 2024/25 HRA Income and Expenditure Budget

3.1 The HRA income and expenditure budget for 2024/25 sets out the revenue budgets required to manage and maintain the stock on a day-to-day basis in the coming financial year. Details of the key changes in budget from the current to the newly proposed 2024/25 budgets are provided below and consists of dwelling and non-dwelling rental income, other charges for services provided to tenants and leaseholders as well as expenditure items relating to the management and maintenance of the stock.

3.2 The operating environment remains challenging for the Council's HRA with higher running cost from the historically high inflation of recent years, which peaked 11.1% in October 2022. Coupled with this are difficulties with supply chains following Brexit, recent geopolitical confrontations and tensions and human resource shortages. Additional to these are newly introduced fire regulations, problems with cladding highlighted by Grenfell, recent damp and mould issues and the global pandemic all converge to form the context within which these budgets are proposed.

Dwelling Rents

3.3 Rent increases for social housing are largely determined by government regulations. Having initially agreed in 2015 to a rent regime which would allow social rents to rise by CPI + 1% for ten years, the government imposed a four-year rent reduction policy of 1% per annum from 2016/17 to 2019/20. From April 2020 it announced that for next five years, rents would be allowed to rise by CPI + 1% (using September CPI). However, in the face of the unusually high CPI inflation of September 2022, the government set a one-off cap of 7% on rent increases in 2023/24 with the policy reverting to the CPI + 1% for the final year 2024/25. Links to the Rent Standards of 2020 and 2023 are provided under the Public Background Papers section of this report. The current rent regime ends on 31 March 2025 and the government will need to consult with Registered Providers during the coming year as to how rent may be allowed to increase in future. There is no view on whether the increases will be at CPI or above CPI, or even whether some form of convergence to the formula rent will be allowed. The recommended prudent assumption for business planning from 1 April 2025, is only to assume increases of CPI.

3.4 The rent paid by tenants is the main source of funding for expenditure incurred in the running of social housing stock including the capital programme and paying down the HRA debt and interest costs. Real term reduction in rents therefore directly affects the funding available to invest in the housing stock. The cost of running the HRA is expected to increase in line with inflation with significant investment needed to meet important new fire safety and energy regulations and keep the stock generally in decent living condition. This includes the social regulator's requirement for Councils to be regulated against the Consumer Standard. This is new this year and will potentially bring additional cost burden in both revenue and capital as tenants are now encouraged to make landlords aware of failings which must be recorded and addressed.

3.5 To help generate funds for these investments it is recommended that general needs secure, affordable and sheltered housing rents are increased by the maximum 7.7% permitted by government rent policy. This is based on CPI in September 2023 of 6.7% plus 1% and will result in an average increase on the weekly rent for general needs from £108.72 in 2023/24 to £117.07 in 2024/25 per week.

3.6 The indicative average increase by bed size is shown in the table below:

No of Bedrooms	2023/24 Average Rent Per week	2024/25 Average Rent Per Week	Rent Increase Per Week
0	£82.35	£88.69	£6.34
1	£91.14	£98.12	£6.98
2	£109.11	£117.49	£8.38
3	£119.88	£129.11	£9.23
4	£128.87	£138.79	£9.92
5	£132.67	£142.88	£10.21

3.7 The additional amount of income expected to be generated from the rental income is £6.318m after adjusting for changes in stock numbers from the Right-to-Buy scheme and estate renewal programme.

3.8 For most tenants who are in receipt of Housing Benefit or Universal Credit, the rent increases will be covered by an increased benefit payment. In addition, tenants who are at risk of falling into debt can be offered support by Community Solutions and some will be able to access Discretionary Housing Payments or the Household Support Fund.

Non-dwelling Income

3.9 Non-dwelling income relates to income from the letting of HRA garages to tenants and residents. It is proposed that the budget is uplifted by the September 2023 CPI of 6.7% to ensure income generation keeps pace with the cost of maintaining and running the garages. This increase will represent the first increase in three years.

Service Charges

3.10 Tenant service charges are specific charges for services that some tenants receive, and others do not and forms a large part of the Charges for Services and Facilities line in the HRA Income and Expenditure budget. The list of charges which are identified separately are set out below. The charges are expected to be no more than the actual cost of the service. Not all tenants pay service charges and so currently an estimated 10,000 do not pay any service charges due to the type of property they occupy. The current and proposed charges are set out below:

Service	Charges for 2023/24	Proposed charges for 2024/25	Increase / reduction	Basis of Increase
Grounds Maintenance	£2.93	£3.16	£0.23	CPI+1%
Caretaking	£7.65	£8.03	£0.38	Cost Recovery
Cleaning	£3.68	£3.86	£0.18	Cost Recovery
Estate Lighting	£4.34	£4.34	nil	Cost Recovery
Concierge	£11.08	£11.93	£0.85	CPI+1%
CCTV (SAMS)	£6.79	£7.31	£0.52	CPI+1%
Safer Neighbourhood Charge	£0.57	£0.60	£0.03	Cost Recovery
TV Aerials	£0.62	£0.67	£0.05	CPI+1%

3.11 Service charges are reviewed annually to ensure they reflect the full cost of services rendered to beneficiaries of the service to avoid cross subsidies by other tenants who do not receive the service. The proposed increases in charges reflect the estimated increase in the cost of providing these services and so do not generate a financial benefit to the HRA. Where the weekly increase in charge will be more than CPI plus 1% the increase has been capped at that level in line with government guidelines for social housing providers to endeavour to maintain annual service charge increases for existing services within the CPI plus 1% limit used for rent uplifts.

Heating and hot water charge

3.12 The other main contributor to the change in the Charges for Services and Facilities budget is the Heating and Hot Water Charge. Properties that benefit from a communal heating hot water system are required to pay this weekly fixed rate charge alongside the rent. This is set based on the estimated charges and usage provided by suppliers and apportioned on the basis of size of the properties that utilise the service. In 2024/25, the energy suppliers are estimating a marginal decrease in energy costs compared to the 2023/24 estimates, as a result, it is recommended that the heating and hot water charge be reduced by 5.5%. The table below shows the proposed charges to tenants. If the decrease is not passed on, then these tenants would be subsidising the overall HRA which would not be equitable.

Property size	Weekly Charge 2023/24	Weekly Charge 2024/25	Increase / Decrease
Bedsit	£29.52	£27.89	(£1.63)
1 bedroom	£31.56	£29.82	(£1.74)
2 bedroom	£38.21	£36.11	(£2.10)
3 bedroom	£38.92	£36.78	(£2.14)
4 bedroom	£39.94	£37.74	(£2.20)

Water and Sewerage Charges

3.13 Water and Sewerage services are provided by external providers to residents with the Council collecting the income from tenants on behalf of the providers for a commission. The rates applied to tenants' accounts in respect of this are provided by the supplier. Following a review of current charges and information supplied by the providers, water will be increased by 10% from April 2024, with sewerage remaining at the current year rates.

Supervision and Management

3.14 The management and maintenance of the Council's housing stock is split between a number of service delivery agents. My Place department provides landlord services, while functions such as the Housing Register and tenancy support are managed in the Community Solutions department. Repairs and maintenance are delivered by BD Management Service (BDMS) a wholly owned Council Company, with My Place department acting as client managers.

3.15 The supervision and management budgets which comprises of staffing (including supervision of repairs & maintenance), utilities and other cost of services provided to tenants and leaseholders are projected to increase by £2.7m, an increase of 5.6% on the 2023/24 budgets. This reflects estimated increases in staffing costs, proposed increments from utility suppliers and estimated inflation uplifts on services provided by other suppliers.

Repairs and Maintenance

3.16 The Council reduced the budget for repairs and maintenance and did not pay inflation for operatives during the four-year period, between 2016/17 to 2020/21, when the HRA was required to apply one per cent rent reduction. Following this period annual uplifts have been below inflation since 2018/19 and has not accounted for overheads of BD Management Service. This is no longer sustainable in the face of significant increases in inflation in construction and maintenance services and only results in significant in year overspends. It is proposed that the repairs and maintenance budget is increased by £0.9m to take account of these pressures in 2024/25 and sustain improvements in tenant satisfaction and improved performance achieved in 2023/24. In 2024/25 My Place department plans to recommission the repairs and maintenance contract using an industry standard commercial contractual arrangement to help drive value for money through regular benchmarking of repair and maintenance cost and performance to industry metrics.

Rent, Rates, Etc

3.17 Recent increases in insurance premiums mean the rents, rates, etc budget of the HRA is forecast to increase by £2.2m. Within this budget is premises insurance which is expected to increase from £1.6m to £3.5m. Budget provision for council tax paid on void properties has also now been made. While the Council will be looking to minimise the void levels, it is still anticipated that a small number of properties will incur council tax charges while these properties are void.

Bad Debt Provision

3.18 Current cost of living crisis has led to an increase in tenant arrears, and therefore the risk of bad debt. It is prudent to assume that the full bad debt provision built from the Covid era be maintained in 2024/25 to manage this risk. The Council's income team will continue to recover as much of the arrears as possible while colleagues from Community Solutions also carry on their important responsibility of signposting tenants in need of financial support to government funding for alleviating these challenges such as Housing Benefits and Universal Credit.

Interest Payable and Receivable

3.19 The HRA receives interest on its notional reserves held in the General Fund and pays interest on loans both internally from the General Fund and externally. The interest expected from its reserves is expected to reduce by £0.124m following the forecast reduction of the reserves from 18m at end of 2022/23 to £12.8m by end of 2023/24. Interest payable on HRA loans is expected to reduce by £0.474m to account for planned reductions in the use of internal borrowings in 2023/24 and 2024/25 compared to assumptions made in the 2023/24 budget.

3.20 The proposed HRA Income and Expenditure budget for 2024/25 is set out below.

2024/25 HRA INCOME AND EXPENDITURE BUDGET			
REPORT LEVEL	2023.24 BUDGET	CHANGES	2024.25 BUDGET
	£'000	£'000	£'000
SUPERVISION & MANAGEMENT	48,393	2,700	51,094
REPAIRS & MAINTENANCE	24,473	892	25,365
RENTS, RATES ETC	1,587	2,188	3,775
INTEREST PAYABLE	11,300	(474)	10,826
BAD DEBT PROVISION (BDP)	3,309	0	3,309
CDC RECHARGE	1,102	(156)	945
TOTAL EXPENDITURE	**90,164**	**5,150**	**95,314**
DWELLING RENTS	(90,432)	(6,318)	(96,750)
NON-DWELLING RENTS	(765)	(36)	(801)
CHARGES FOR SERVICES & FACILITIES	(26,158)	1,783	(24,375)
INTEREST & INVESTMENT INCOME	(400)	124	(276)
TOTAL INCOME	**(117,755)**	**(4,447)**	**(122,202)**
NET TOTAL BEFORE CAPITAL	**(27,591)**	**702**	**(26,888)**
DEPRECIATION	19,210	3,403	22,613
REVENUE CONTRIBUTION TO CAPITAL OUTLAY	6,680	(4,605)	2,075
CAPITAL PROGRAMME FUNDING	**25,891**	**(1,202)**	**24,688**
NET TOTAL AFTER CAPITAL	**(1,700)**	**(500)**	**(2,200)**
TRANSFER TO HRA LEASEHOLDER RESERVE	1,700	500	2,200
TRANSFER FROM/(TO) HRA RESERVE	**0**	**0**	**0**

Reserves

3.21 The HRA holds reserves built from surpluses earned in previous years to help smooth over periods of budget pressures and fund the capital programme. In 2023/24 an estimated £5.8m is expected to be drawn from reserves to cover that year’s overspend and is driven largely by repairs and maintenance costs. This will result in an estimated closing balance of £12.8m by end of the year, representing 10.8% of the forecast total HRA income for 2023/24, compared to the target minimum of 10% or £11.8m reserve balance.

3.22 With the estimated opening HRA reserve for 2024/25 of £12.8m surpassing the 2024/25 target reserve of £12.2m, an estimated £2.1m of the surplus expected to be generated in 2024/25 will be transferred to the Major Repairs Reserve to fund investments in the capital programme.

4. HRA Capital Programme

4.1 The HRA capital programme is largely funded from the rent income paid by tenants. The Council is required to set aside money every year for major repairs based on the annual depreciation charge of the HRA. Additional revenue contributions can also be made from the income and expenditure budget instead of growing the HRA reserve balance. The Council can also use part of the capital receipts from sale of HRA assets and following the lifting of the HRA borrowing cap, can borrow to invest in new and existing housing stock.

4.2 Currently the bulk of the Council’s HRA capital expenditure is invested in the existing housing stock and aimed at ensuring the stock meet the Decent Homes Standard as well as maintaining the communal and estate environment. In addition, the Council undertakes estate renewal and new build/acquisition programmes. More information about these three programmes is given in their respective sections below.

4.3 The affordability of the capital programme has been determined using the 30-year HRA business plan. The proposed programme is therefore based on the amount the HRA can invest in and continue to maintain a viable housing revenue account over a 30-year period. Based on a stock condition survey completed in 2018/19 and updated to current prices, the investment requirement for the next 30 years amounts to £1.8 billion when inflated. However, this is not sustainable in the refreshed HRA as it indicates the HRA will run out of reserves by year 13 of the model. This is largely because the HRA must borrow an estimated £0.8 billion as it only generates just over half of what it needs from rental income and other sources.

4.4 To ensure that the HRA maintains a healthy minimum cash reserve over the next 30 years, the 30-year capital programme has been reduced in the Sensitivity Model to a level that is more sustainable and enables the HRA to maintain positive reserves until year 18 or 2042/43 when a £50m loan repayment becomes due. This period of maintaining positive HRA reserves can be extended further if the loan repayment is re-financed as expected. The revised capital programme which represents a reduction of £0.6 billion to a new figure of £1.2 billion has been used to inform the 2024/25 capital programme requested and the indicative figures for 2025/26 to 2028/29.

4.5 All landlords are expected to invest in their properties to reduce their carbon footprint and while there are currently limited legislative requirements on landlords, it is expected that soon there will be a requirement for all homes that are let to be Energy Performance Certificate Band C or better by the end of the decade. The government is also yet to make available the funding needed to support landlords to improve the energy efficiency of their stock. The business plan has not made provision for decarbonization given the limited resource available to invest in the existing stock.

4.6 The proposed capital programme for 2024/25 and the indicative programme for the next 4 years to 2028/29 is summarised below:

Budget Type	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Internal Works	4,058	5,587	7,552	5,807	6,356
External Works	5,072	6,983	9,440	7,258	7,945
Compliance / Communal	4,666	6,425	8,685	6,678	7,310
Estate Environs	2,029	2,793	3,776	2,903	3,178
Landlord Works	2,029	2,793	3,776	2,903	3,178
Other	2,435	3,352	4,531	3,484	3,814
Estate Renewal	4,400	0	0	0	0
Total Capital Investment	**24,688**	**27,934**	**37,760**	**29,034**	**31,781**

Funded By:	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Other RTB Receipts	0	232	3,226	3,200	3,173
Leaseholder Contributions	0	1,000	1,000	1,000	1,000
Major Repairs Reserve	22,613	23,612	23,711	24,185	24,669
Revenue Contribution to Capital Outlay	2,075	3,090	5,063	649	2,939
New Borrowing	0	0	4,759	0	0
TOTAL FUNDING	**24,688**	**27,934**	**37,760**	**29,034**	**31,781**

Investment in Existing Stock

4.7 The focus of HRA capital expenditure is on investment in the housing stock and estates. The stock investment programme is focused on the following five groups of works:

1. Internal: kitchens, bathrooms, boilers and rewire
2. External: roofs, windows, doors, rainwater goods
3. Communal/compliance: fire doors, lifts, communal boilers, lateral mains, water tank replacement, asbestos removal, door entry systems
4. Estate Environment Works: road surfaces, footpaths, garages
5. Landlord Works: disabled adaptations, capital voids, energy efficiency
6. Other: Contingencies, ICT projects

4.8 Cabinet is asked to agree a budget of £20.288m for 2024/25. The approval will give authorisation to My Place department to start the design and procurement of these works against the agreed budget. This investment is higher than the £14m budget available this year and originally proposed for 2024/25 and will enable the service to scale up its activities and catch up on schemes that slipped in 2023/24 after the budget was reduced to £14m to accommodate the significant increase in the repairs contract in 2023/24.

4.9 The stock investment programme hit its target of fewer than 10% of properties not meeting the Decent Homes Standard. Continuing to reduce this figure to zero so Council homes are decent is a major aim of the stock investment programme.

4.10 Where works are carried out that benefit leaseholder properties the Council may recover the relevant proportion of costs from the leaseholder. These funds are used to offset the overall cost of the programme.

Estate Renewal

4.11 The Council has been delivering a rolling programme of Estate Renewal schemes since 2011 with an agreed budget set year to year. The HRA Estate Renewal budget mainly funds home loss and disturbance payments for tenants and buy back of leasehold stock to create vacant possession on the estate to facilitate its development. It has also funded the actual costs of demolition in some locations.

4.12 Phase 4 Gascoigne is the only project with an active decant and buyback programme and is the final phase of the master plan programme as approved by Cabinet in June 2014. This phase contains the last 4 high rise large panel system blocks in the Councils stock. In accordance with the decision of the Corporate Assurance Group on 13th October 2022 the Be First decant team have been working with the Landlord Services team in My Place department to expedite the relocations from these blocks due to ongoing compliance and disproportionate collapse risk.

4.13 The proposed budget for 2024/25 to complete Phase 4 is £4,400,000.

4.14 Estate Renewal projects continue to be a key component in the plans for delivering the Councils long-term regeneration vision for the borough. In addition to delivering more and better homes they also assist with tackling some of the HRA housing stock that requires higher levels of capital investment to meet decent homes, retro fit and other compliance standards. Bringing forward viable schemes is more challenging than ever and future projects will need to be prioritised to the ones that represent the greatest long-term savings to the HRA Capital Programme.

4.15 A working group of representatives from the Council and Be First are reviewing an agreed list of further Pipeline projects that includes a number of Estate Renewal schemes. The group is also considering alternatives to direct delivery and Council funding to continue to move the programme forward. The Estate schemes on this list have all been sighted in previous versions of the Be First Business Plan Pipeline and includes schemes that have already been flagged as priority schemes based on existing Asset Management information like Millard Terrace, Padnall and Reynolds Court. The delivery of these and other pipeline schemes such as 90 Stour Road, Ibscott Close and Harts Lane will continue to be assessed alongside any other priorities that emerge from the planned new stock condition survey and ability to meet retro fit and compliance requirements.

4.16 All future proposals brought to Cabinet will need to fully set out the HRA Asset Management case alongside the delivery arrangements and the normal statutory consultation and necessary Ballot requirements.

New Build Programme

4.17 The main approach to new build for the Council is through General Fund borrowing, with the homes built by Be First and ultimately managed by Reside. The intention is to invest most of the future 1-4-1 receipts in this programme. There are also plans to fund a small new build programme through the HRA, primarily for specialist housing to support vulnerable residents under the Innovative Sites Programme.

4.18 An estimated provision of £40,000 is expected from the HRA to fund Workstream 1 of the Innovative Sites Programme but had not yet been fully agreed to be incorporated in this report. Workstream 1 has a total allocation of 13 sites to be disposed in a phased approach across three tranches via the GLA's portal. The objective of Workstream 1 is to dispose of LBBD owned sites to Small and Medium Size Enterprise (SME) developers for the delivery of housing for local people. SMEs have the resource and capabilities to invest in and deliver small sites in innovative ways that would typically not be economical for Be First to deliver. Phasing disposal will allow both the GLA and Be First to effectively resource the process as well as provide sufficient opportunity for bidders to respond.

5. Consultation

5.1 Consultation on the proposals in this report have taken place with the Leader, the Cabinet Member for Community Leadership and Engagement and the Cabinet Member for Finance.

5.2 The Executive Team considered and endorsed the proposals at its meeting on 4 January 2024.

6. Financial Implications

Implications completed by: Nish Popat, Deputy Section 151 Officer and Alex Essilfie-Bondzie, Interim Head of Finance, My Place and Inclusive Growth.

6.1 The Council is required to maintain a ring-fenced Housing Revenue Account (HRA) for the management of its social housing properties. All expenditure on Social Housing must be fully funded from rental income with no call on funding from Council Tax receipts and other general council funds. The Council is also required to have business planning processes in place to ensure that the HRA remains sustainable over at least a 30-year period.

6.2 The rent and service charge uplifts proposed in this report are in line with government social rent setting guidance that allows social housing providers to increase rent by CPI plus 1% for 5 years from 2019/20. This followed 4 years of rent reduction in the period immediately following the introduction of HRA self-financing in 2012. The 5 years of rent uplifts was set aside in 2023/24 with the introduction of a rent cap of 7% in the face of peak inflation of 11.1%. The impact of the rent uplift on the budget is impacted by Right-to-Buy sales which reduces the income that otherwise would have been available to support the HRA.

6.3 The government reinstated the rent increases of up to CPI plus 1% from 2024/25, and this report recommends rents for LBBD tenants are increased by 7.7% in 2024/25. This is based on the September 2023 CPI of 6.7% plus the 1% cap permitted under the government rent policy.

6.4 The rent increase will assist the HRA to generate income to continue to manage the housing stock and sustain recent improvements in performance indicators on repairs and maintenance in 2023/24. Provision to continue with the current work to reduce damp and mould incidents among the stock has also been made within this budget proposal.

6.5 These increases in rent and the running costs of the HRA have been modelled through the 30-year HRA business plan. This shows that the HRA does not generate enough resources to meet the investment required to sustain the stock based on the income forecasts and level of borrowing required to support the investment and will result in the HRA reserves going into deficit by year 13 of the plan. To ensure the viability of the HRA is sustained a Sensitivity Model has been developed alongside the base model that reduces the investment in the stock to a more sustainable level. This has been used to inform the 2024/25 capital programme requested for approval in section 4 of this report.

6.6 The Sensitivity Model of the HRA Business Plan does indicate that in Year 18 it will become unviable under existing policies and assumptions. Therefore, close monitoring of the HRA finances will be required to ensure actions and decisions are taken to bring the HRA back into a balanced position.

6.7 While the indicative capital programme shown in section 4 of the report is below the amounts required to maintain the stock at the levels required by the stock condition survey over the 30-year period, the provision for the first year has been designed to match the capacity of the service to scale up and utilise all funding available while it undertakes a new and improved stock condition survey to inform new contractual arrangements with repair suppliers and stock investment strategies. Budget provision has been made in the capital budget for 2024/25 for the new stock condition survey set to be commissioned in 2024/25 and executed over a 4-year period. The new survey will also enable the Council to make informed decision on how to approach long term investment in the Council stock and help set out a clearer plan for achieving decarbonisation targets for the housing stock.

7. Legal Implications

Implications completed by Dr Paul Feild, Principal Standards & Governance Solicitor

7.1 The setting of the rent and other housing charges is a Cabinet function. The basis for setting rent is Section 24 of the Housing Act 1985 which provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses.

7.2 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.

8. Other Implications

8.1 **Risk Management –** Rental income will be used to manage and maintain the Council’s housing stock and any surplus will be invested in capital works to improve and maintain the stock. It therefore supports the reduction and mitigation of housing related risks such as fire, damp and moult and housing related health impacts.

Charging the right levels of rent also ensure that HRA remains viable to meet its borrowings costs as they become due.

8.2 **Contractual Issues –** There are no new contractual arrangements emanating from the proposals in this report.

8.3 **Staffing Issues –** There are no staffing issues emanating from the proposals in this report.

8.4 **Corporate Policy and Equality Impact –** The report proposes that rents are increased in line with government regulations. HRA rents remain low compared to market rents even following the proposed increase, and in general are around 35% of market rents in the borough. The rental increase proposed this year is considered proportionate because rent is the main source of income for the HRA, funding services to Council tenants as well as maintenance of the housing stock and supporting investment in new affordable housing properties in the borough. Rents for HRA properties can be fully covered by Housing Benefit/Universal Credit if needed in most cases. These directly deliver on the Council's priorities of residents living on good housing and avoiding becoming homeless as well as facilitating work to ensure residents benefit from inclusive growth and regeneration.

Community Solutions will be available to offer support to tenants who need assistance with financial management and budgeting and income maximization. In addition, Discretionary Housing Payments and the Household Support Fund may be available for some eligible households who are struggling with their housing costs

8.5 **Safeguarding Adults and Children –** Rental income will be used to manage and maintain the Council's housing stock and provide specific services and support for tenants including families and vulnerable adults.

8.6 **Health Issues –** The social housing provided in the HRA provide submarket rent secure accommodation that insulates tenants from the current challenges in the London rental market with its attendant negative impact on mental health. An increase in rental cost risks adding financial strain which impacts on mental and physical health (through e.g. food security) of tenants; and it will be important to ensure active promotion and intervention to ensure those at risk of debt are supported early and to monitor any increasing rates of those becoming financially vulnerable and requiring additional support. Furthermore, the investment into tackling damp and mould specifically can help tenants avoid respiratory diseases and other illnesses associated with this disrepair. While the general maintenance undertaken on the housing stock has the benefit of reducing incidents of injury from accidents on the estates. Removal of asbestos is a critical factor in preventing avoidable mortality. In relation to housing and health fuel poverty/cold homes are risk factors for illness and can be mitigated against by adequate external maintenance (roofs, door, windows.) In the long-term action to improve insulation is warranted; and should be considered in line with developing national policy.

8.7 **Crime and Disorder Issues –** Among the services funded from rental income are Council initiatives to support victims of domestic abuse and the tackling of antisocial behaviours on council estates.

8.8 **Property / Asset Issues –** Rental income will be used to manage and maintain the Council's housing stock and any surplus generated can additionally be invested in capital works to improve and maintain the stock.

Public Background Papers Used in the Preparation of the Report:

- Rent Standard, April 2023: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1136773/Rent_Standard_April_2023.pdf
- Rent Standard, April 2020: 2020 Rent Standard (from April 2020) - GOV.UK (www.gov.uk)

List of appendices:

- **Appendix A:** Base Plan – 30 Year HRA Income and Expenditure Forecasts and Stock Investment Requirement
- **Appendix B:** Sensitivity Scenario – 30 Year HRA Income and Expenditure Forecasts with a Capped Stock Investment Requirement.
- **Appendix C:** HRA Business Plan Assumptions