

BABERGH DISTRICT COUNCIL

To: Council	REPORT NUMBER: BC/23/39
FROM: Councillor John Ward, Cabinet Member for Finance	DATE OF MEETING: 20 February 2024
OFFICERS: Karen Watling, Interim Corporate Manager: Finance (Deputy S151 Officer) Jeni Smithies, Finance Business Partner	KEY DECISION REF NO. N/A

HOUSING REVENUE ACCOUNT (HRA) 2024/25 BUDGET

1 PURPOSE OF REPORT

- 1.1 The report contains details of the revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the HRA Budget for 2024/25.
- 1.2 To enable Members to consider key aspects of the 2024/25 HRA Budget, including council house rent levels.

2 BACKGROUND

- 2.1 The HRA forms part of the General Fund budget; it is a ringfenced account, which means that revenue from the HRA can't be used for General Fund functions and vice versa.
- 2.2 In 2012, the Government changed how council housing was financed for Babergh, which meant the Council took on a loan. Babergh Council took on £83.647m of debt. The trade-off was that Councils were able to keep the rent payments. It was expected that the debt would be paid off over time, using rent increases which were set by the government to run until 2025. However, in 2015, the government changed the rent policy, and since then, councils have found it challenging to balance the accounts.

3 OPTIONS CONSIDERED

- 3.1 The Housing Revenue Account Budget for 2024/25 is an essential element in achieving a balanced budget and sustainable medium-term position, therefore no other options are appropriate in respect of this.

4 RECOMMENDATIONS

4.1 That Council approves:

- a) The HRA Budget proposals for 2024/25 set out in this report.
- b) That a CPI + 1% increase of 7.7% for social rents, equivalent to an average rent increase of £7.92 and a RPI + 0.5% (9.4%) increase for affordable rent of £11.13, a week be implemented.
- c) That the RPI increase of 8.9% in garage rents, equivalent to an average rent increase of £3.83 or £4.71 (private rental), a month be implemented.
- d) That an increase of for sheltered housing service charges, equivalent to £49.12 a month, be implemented.
- e) That an increase for sheltered housing utility charges, equivalent to £28.95 a month, be implemented, following no utility increase for 3 years (from 2019/20).
- f) That in principle, Right to Buy (RTB) receipts should be retained within the Housing Revenue Account, to enable continued development and acquisition of new council dwellings.
- g) That a £6m PWLB loan due to be repaid in 2024/25 repaid rather than refinancing at a higher interest rate.
- h) That the Revenue Contribution to Capital is increased £4.48m to £5.572m.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils Housing Revenue Account budget for recommendations to Council.

5 KEY INFORMATION

Background

- 5.1 The Council's current HRA Business Plan presents a financial picture over the longer term (a thirty-year period as required under the self-financing regime). The business plan sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones. In addition, the Business Plan is used to plan and understand any potential borrowing requirements which are needed to adhere to Social Housing Regulations such as the Consumer Standards and the Decent Homes Standard
- 5.2 The housing landscape will look very different in years to come, as such the Council took the decision to carry out a full review of the business plan, considering all compliance requirements, stock condition data and the emerging Social Housing Regulation Bill. As such a revised and up to date business plan is being produced and will be presented in March 2024. This will include a series of presentations which provide Members with the appropriate stress testing and scenario planning to enable a longer-term view to be taken. This will also give comfort to our customers as our planned and estate enhancements will be included in the plan.

- 5.3 Members should also note that officers will be working with customers during the year to understand their aspiration around how we create a place to be proud of. This forms part of the new housing regulations, and as such officers will consult with customers on what they would like to prioritise in the new business plan.
- 5.4 The information presented to Overview and Scrutiny Committee in January 2024 and this budget report presented to Cabinet and Full Council will focus on the budget for 2024/25. The revised business plan, when it is presented, will set out the longer-term financial implications and ambitions for the HRA and will take into account any decisions or approvals in relation to the 2024/25 budget.
- 5.5 Following a period of five years that saw annual 1% rent reductions, which ended in March 2020, councils were allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years from April 2020. Subject to compliance with the Regulator of Social Housing's Rent Standard, this has begun to mitigate the impact of the 1% reduction on the 30-year plan. However, the cost-of-living crisis led to the Government making a change to the rent settlement last year and capping the increase at 7%. This is again against the backdrop of aging stock which requires urgent investment.
- 5.6 The removal of the HRA Debt Cap from 29 October 2018 means that local authorities can borrow to fund new homes without worrying about breaching this cap. Any borrowing will be subject to the Council adhering to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.
- 5.7 The 2024/25 budget is aligned to and supports the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives.

2023/24 Budget and Forecast Outturn

- 5.8 On 20 February 2023 the Council set the HRA budget for 2023/24 showing a deficit of £602k
- 5.9 The second quarter 2024 budget monitoring report was presented to Cabinet on 4 December 2023 showing a forecast adverse variance of £944k against the budgeted deficit of £602k. The key factors in this position are the additional costs being incurred to address the backlog in void and responsive repairs, as well as increasing materials costs due to inflation.
- 5.10 The third quarter position will be presented to Cabinet on 5 March 2024.

2023/24 Budget Proposals

- 5.11 In preparing the budget for 2024/25 the various headings have been thoroughly reviewed against the forecast for 2023/24, to ensure that they are set on a realistic basis for next year.
- 5.12 The budget for 2023/24 was a deficit of £602k however due to a review of the best use of reserves, a proposal of a £6m loan repayment and a £4.5m increase in revenue contribution to capital results in the position for next year appearing to have worsened by £9.535m as shown in table 1.

Table 1: Budget changes

	£'000	£'000
2023/24 Deficit		602
Pressures		
Loan Repayment	6,000	
Revenue Contribution to Capital	4,480	
Repairs inc. voids (inflation and increase based on outturn)	603	
Building Services Transformation	454	
Interest charges	225	
4% Pay increase	183	
Depreciation	96	
Planned maintenance - heating (inflation)	90	
Renewable Heat Incentive no longer received	50	
Fire Prevention increased due to 2023/24 increased actual spend	44	
Contracted Services (inflation)	15	
Total Draft Pressures		12,241
Savings/additional Income		
Rental income – based on 7.7% increase	(2,178)	
Service Charges – based on prior year costs	(248)	
Recharges	(90)	
Other savings on reduced one off costs and expenses	(190)	
Total Draft Savings/additional Income		(2,706)
Total Net increase		9,535
2024/25 Draft Deficit		10,136

5.13 The current draft position for 2024/25 shows an overall deficit of £10.136m.

5.14 The Councils' total cost of service has increased by £1.162m or 10%, and income has increased by £2.43m or 12%, as shown in table 2 below.

Table 2: Summary

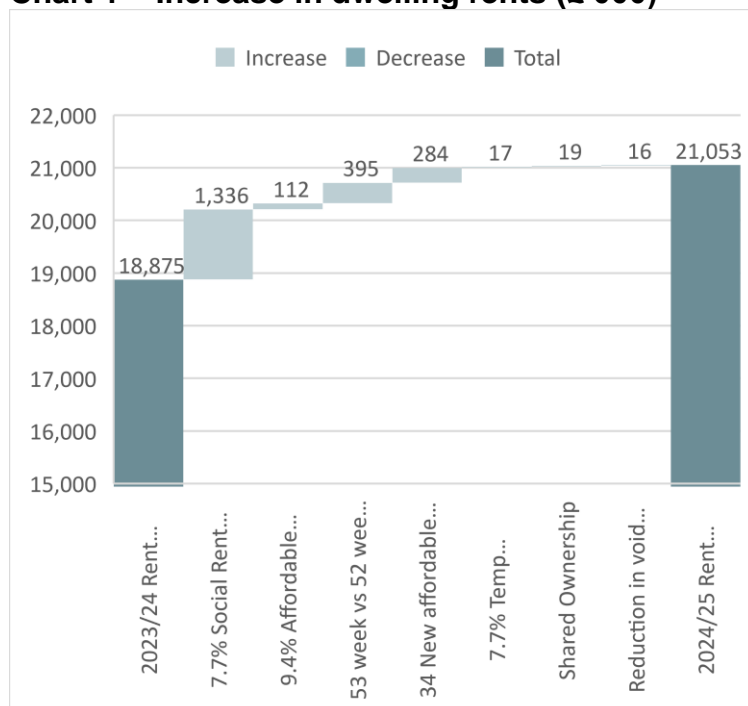
	Budget 2023/24	Budget 2024/25	Movement 23/24 vs Budget 24/25
	£'000	£'000	£'000
Dwelling Rents	(18,875)	(21,053)	(2,178)
Service Charges	(659)	(907)	(248)
Non-Dwelling Income	(238)	(238)	
Other Income	(75)	(79)	(4)
Total Income	(19,847)	(22,277)	(2,430)
Housing Management	5,353	5,075	(277)
Building Services	4,999	6,369	1,369
Repairs and Maintenance (all areas except Trades Team)	1,030	1,087	724
Bad Debt Provision	100	113	13
Total cost of service	11,482	12,644	1,162
Depreciation	4,817	4,913	96
Interest payable	3,068	3,283	215
Loan Repayment		6,000	6,000
Revenue Contribution to Capital	1,092	5,572	4,480
Interest Received	(10)		10

Deficit / (Surplus) for Year	602	10,136	9,535
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5.15 In calculating the 2024/25 budget, the following assumptions have been made:

Income

Chart 1 – Increase in dwelling rents (£'000)



5.16 **Dwelling Rents** - an increase of 7.7% (CPI + 1%) on general needs properties and an increase of 9.4% (RPI + 0.5%) for affordable housing has been built into the budget for 2024/25. It is assumed that 17 properties will be purchased by the tenant through the Right to Buy mechanism and the number of voids is expected to reduce to 1% (current void rate is 1.2%). All budget changes mentioned will generate £2.178m additional income.

5.17 Tables 3 and 4 below show the impact on income levels that would be available to the HRA as alternative options for a rent increase in 2024/25 compared to the maximum that is currently built into the budget. Table 3 shows the impact on the 2024/25 budget and Table 4 shows the cumulative impact over 1, 5, 10 and 30 years.

Table 3: Rent Scenarios

Babergh Rents	2024/25 Budget Full increase £'000	6% increase £ '000	3% increase £ '000	0% increase £ '000
Social housing rents (7.7% increase)	(17,888)	(17,606)	(17,108)	(16,609)
Affordable rents (9.4% increase)	(1,592)	(1,567)	(1,523)	(1,478)
Supported (Sheltered)	(1,341)	(1,319)	(1,282)	(1,245)
Shared ownership properties (RPI 8.9%+0.5%)	(252)	(244)	(237)	(231)
Less 1% voids	21	20	20	19
Total rents	(21,052)	(20,716)	(20,130)	(19,543)
Deficit / (Surplus) for the year	9,369	9,705	10,292	10,878
Net increase	1,509	1,173	586	-

Table 4: Rent increase – cumulative impact on HRA Business Plan

Rent increase	One year £ '000	Five years £ '000	10 years £ '000	30 years £ '000
3%	583	2,980	6,198	22,322
6%	1,165	5,960	12,397	44,645
7.7%	1,496	7,655	15,922	57,350

5.18 The average weekly social rent will increase by £7.92, from £102.88 to £110.81. For affordable housing, the weekly rent will increase by an average of £11.13 from £144.51 to £155.63.

5.19 Of the Council's 3,514 tenants, 1,268 (36%) that we know of are in receipt of Housing Benefit and 1,091 (31%) in receipt of Universal Credit. As Universal Credit is paid direct to the tenant, rather than the landlord, the Council no longer knows the total number of tenants in receipt of support to pay their rent.

5.20 **Sheltered Housing** - it is proposed that service charges are charged by individual scheme to recover expected costs in 2024/25. This is based on the costs from October 2022 to September 2023. The same basis has been used to recovery utility costs. This change in charging results in a fairer apportionment of costs and should reduce the risk of the rent payers subsidising the Sheltered Housing schemes.

- Service charges – an average 38% increase of £11.34 per week or £49.12 per month.
- Heating - an average 32% increase of £5.24 per week or £22.69 per month.
- Water - an average 56% increase of £1.44 per week or £6.26 per month.
- Overall charges are increased by an average of £18.02 (37%) per week, but this will vary from scheme to scheme depending on the service received and cost of utilities.

5.21 Garage rents are being increased in line with RPI (8.9%). Garages can be hard to let in some areas and sites are under review to assess their suitability for development.

5.22 **Other income** – 5% allowed for increase on Leasehold Service charges (to be calculated February/March 2024)

Housing Management

5.23 An overall decrease to the budget of £277k is proposed for 2024/25.

5.24 Increases are required for:

- the annual pay award and increments in staffing costs (£228k)
- Fire Prevention (£45k)

Offset by the following savings:

- Pay Review and transformation costs to Building Services (all budgeted in Management in 2023/24) (£280k),
- Stock Condition Survey one off in 2023/24 (£125k),
- Transformation Project Costs prior year only (£113k),
- Savings on other one-off costs, (£32k).

Building Services

5.25 The decision was made in 2022 to carry out a diagnostic and transformation programme within Building Services. This followed a significant period of increasing costs and reducing customer satisfaction. The programme which aims to provide and implement excellence within Building Services is now almost complete.

There were 3 separate work streams – compliance (complete), assets (complete), and Direct Labour Organisation (DLO) (in final stages). The journey to excellence will take several years to complete however we have already begun to see steady progress being made.

5.26 An overall increase to the budget of £1.369m is proposed for 2024/25.

5.27 A 4% increase to salaries and new roles for Building Services Transformation (£491k), Pay Review and transformation costs to Building Services (all budgeted in Management in 2023/24) (£280k), Heating Planned Maintenance 10% Inflation increase (£90k), Renewable Heat incentive no longer received (£50k), partially offset by painting contract savings (£61k) and savings on one off costs (£30k)

5.28 A 5% inflationary increase has been made to the repairs budget of £58k.

Depreciation

5.29 The depreciation charge has increased by £96k. Following a revaluation, the value of the housing stock at 31 March 2023 was £300.8m. The valuation basis that the Council is required to use for the financial accounts equates to 38% of market value.

Interest Payable and Bad Debt Provision

5.30 An increase of £215k to interest payable is included in the budget for 2024/25 due to the increase in current interest rates. The interest payable figure is based on total long-term debt of £84.7m (with £6m being repaid in year) and recharges from the General Fund for short-term borrowing costs. £83.6m of the long-term debt is the debt that the Council took on when the HRA Self-financing regime was introduced in 2012.

Revenue Contribution to Capital

5.31 The revenue contribution to capital has been increased by £4,480k to reduce short-term borrowing requirements in capital.

Reserves

5.32 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

5.33 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.

5.34 The 2024/25 budget position means that the Council will reduce its Strategic Priorities Reserve by £9,369k compared to the 2023/24 budgeted reduction in reserve of £602k.

5.35 The total balance of all earmarked reserves at 31 March 2025, as a result of the budget proposals, is forecast to be £5.352m, which equates to less than £1,511 per property.

This is dependent on the new build and acquisition programme being delivered on target in the current financial year. Full details of the Councils earmarked reserves are shown in table 5 below.

Table 5: Earmarked reserves

BDC Reserves	Balance at 31 March 2023	Forecast Balance at 31 March 2024	2024/25 Budget Deficit	2024/25 Capital interest	Forecast Balance at 31 March 2025
	£' 000	£'000	£'000	£'000	£'000
Strategic Reserves	(15,093)	(14,721)	10,136	(767)	(5,352)
Big 20 Reserve	(96)	(96)	0		(96)
Building Council Homes Programme	(20)	(20)	0		(20)
Working Balance	(1,000)	(1,000)			(1,000)
Total Reserves	(16,209)	(15,837)	10,136	(767)	(6,468)

5.36 The Council continues to hold £1m in the working balance general reserve which equates to less than £300 per property.

Capital

5.37 The proposed capital programme for 2024/25 and the indicative programme for the following three years is shown in table 6 below.

Table 6: HRA Capital Programme 2024/25 to 2027/28

Babergh DC HRA Capital Programme Budget	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
Planned Maintenance & Response					
Planned Maintenance	4,649	-	-	-	-
Other Maint	1,950	2,000	2,000	-	-
Neighbourhood Improvs	100	2,404	546	557	-
Adaptations	532	424	437	445	454
Horticulture & Play Equip	350	30	30	30	-
Kitchens		932	960	979	998
Bathroom		597	615	628	640
Windows/Doors		780	803	819	836
Garage Doors		72	74	75	77
Internal Fire Doors		14	15	15	15
Fire Detection		20	20	21	21
Emergency Lighting		54	55	56	57
Warden Call		111	38	-	-
Insulation		155	159	162	166
Heating		717	739	754	769
Domestic Elec		439	453	462	471
Roofing		1,060	4,168	4,252	4,337
R-Water Goods &FSB		237	244	249	253
Total Housing Maintenance	7,581	10,045	11,356	9,503	9,095
Other Capital Spend (ICT Projects etc)					
	461	212	218	223	
New build programme including acquisitions					
	2,075	3,406	2,708		
Total HRA Capital Spend	10,117	13,664	14,282	9,726	9,095
HRA Financing					
External Grant	-	255	255		
Other RTB Receipts	700	743	766	677	22
Other Capital Receipts	3,629	2,180	-	-	-
MRR	4,817	4,913	5,012	5,112	5,214
RCCO	970	5,572	1,323	2,182	1,948
Revolver Borrowing	-	-	6,927	1,755	1,911
Total HRA Capital Financing	10,117	13,664	14,282	9,726	9,095

5.38 The new funding within the Capital Programme for 2024/25 totals £13.7m.

5.39 The new build and acquisition programme, which includes development sites for additional homes, are expected to deliver a total of 14 affordable homes by the end of March 2026, further opportunities for new development sites are being sought in order to build a sustainable pipeline of new housing delivery.

- 5.40 The major areas being developed over the next three years includes a site in Sudbury.
- 5.41 There were 17 Right to Buy (RTB) sales for Babergh 2022/23 and this was used as a basis for the budget in 2024/25.
- 5.42 The money received from RTB sales can only be used as a 40% contribution towards the cost of a replacement home. The remaining 60% of the replacement cost must be found from other HRA resources. If sales increase, it means that the level of match funding required (60%) increases. During 2020/21 the Government extended the time period by which RTB receipts have to be spent from 3 to 5 years. If the receipts are not spent within the 5-year period allowed, they must be repaid to Government with 4% above the base rate interest added.
- 5.43 The Council can enter into agreements with the Secretary of State to retain the full RTB receipt from the sale of nominated homes newly built or acquired since July 2008. Officers continue to explore every opportunity to enter into agreements so that any capital receipts received in future from the sale of nominated homes can be retained in full and used as part of the 60% match funding required.

5. LINKS TO THE CORPORATE PLAN

- 5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan, and ensuring the Council has a robust financial strategy. Specific links are to the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives.

6. FINANCIAL IMPLICATIONS

- 6.1 These are detailed in the report.

7. LEGAL IMPLICATIONS

- 7.1 There are none that apply.

8. RISK MANAGEMENT

- 8.1 Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
<p>Babergh District Council may be unable to react in a timely and effective way to financial demands</p>	<p>3 - Probable</p>	<p>3 - Bad</p>	<p>Continued monitoring and reporting of the Councils financial forecast via quarterly reports to Cabinet.</p> <p>Monitoring and reporting of financial forecast.</p> <p>Capital reserves</p> <p>SLT position review workshops.</p> <p>Cabinet briefings to review position and budget options.</p> <p>Budget approval</p> <p>Internal and external audits.</p>	<p>Significant Risk Register - SRR004 BDC</p>
<p>Babergh District Council may fail to be financially sustainable.</p>	<p>3 - Probable</p>	<p>4 - Disaster</p>	<p>Sharing of integrated workforce with Babergh.</p> <p>Single efficient office space with agile working strategy.</p> <p>The Plan for Babergh.</p> <p>Development of medium term financial strategy and creation of long term financial strategy.</p> <p>New outcomes framework.</p> <p>Joint performance and risk monitoring.</p> <p>Shared policies and procedures.</p> <p>Joint Cabinet briefings, audit and standards, overview and scrutiny.</p>	<p>Significant Risk Register - SRR008 BDC</p>

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
Babergh District Council may suffer a significant overspend that needs to be funded from reserves.	3 - Probable	3 - Bad	Reporting of impacts of inflationary pressure forecast to SLT and early warning cabinet and monitored through the quarterly outturn reports. Review level of reserves with SLT. Quarterly financial monitoring.	Significant Risk Register - SRR0013 BDC
The councils may face significant increases in their borrowing costs.	3 - Probable	3 - Bad	Regular review of current interest rates and ongoing advice from Arlingclose. Review as part of treasury and investment strategy, and budget setting to ensure further decisions that incur borrowing are affordable.	Significant Risk Register - SRR0025 BDC

9. CONSULTATIONS

- 9.1 Consultations have taken place with the Director, Corporate Managers and other Budget Managers as appropriate.

10. EQUALITY ANALYSIS

- 10.1 The Director and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics under the Equality Act 2010.

11. ENVIRONMENTAL IMPLICATIONS

- 11.1 Directors, Corporate Managers and other Budget Managers will continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.
- 11.2 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken in relation to the housing and sheltered accommodation stock. These are set out in more detail below.

- 11.3 The new homes 'design and technical specification' that incorporates carbon saving solutions and improve energy efficient standards for all new homes built by the Council and its Growth Company, has now been adopted by the Council.
- 11.4 A review of Social Housing solar systems performance is underway and will be used to further inform social housing energy generation.
- 11.5 Social Housing - we are preparing a programme of energy retrofits to the poorest performing properties rated with an Energy Performance Certificate rating of E and below, with a view to submitting match funding bids to the Government's Social Housing Decarbonisation Fund. A five-year programme of energy retrofits is under development aimed at raising all social housing to an Energy Performance Certificate rating of C or above.

12. BACKGROUND DOCUMENTS

BCa/23/27 FINANCIAL MONITORING QUARTER 2 2023/24