DMC Round December 2023
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Title: HRA Budget 2024/25

Information/Discussion Report – Discussion

Recommendations: The DMC is asked to note the report and provide comment.

Report Summary: This report provides an update on Housing Revenue Account (HRA) 2024/25 Budget Setting progress ahead of the January Joint DMC meeting at which DMC representatives will be asked to provide feedback on proposals.

1. INTRODUCTION

1.1. This report provides an update on Housing Revenue Account (HRA) 2024/25 Budget Setting progress ahead of the January Joint DMC meeting at which DMC representatives will be asked to provide feedback on proposals being taken to January Cabinet for approval by members regarding rents, service charges, the heating pool and the budget. An example of the template to be completed as part of the individual DMC meetings (part of the Joint DMC meeting) is shown in Appendix B.

1.2. At January 2023 Cabinet, it was assessed that there was a medium-term pressure to the HRA of £8m, which on high scenario would be £14m over 23/24 to 25/26 and therefore members approved a savings programme of £7.5m over this period to mitigate it. However, in-year forecasts for 23/24 are suggesting that the pressures will be higher than originally anticipated and the HRA is currently forecasting an overspend in year. The service is working hard to reduce this overspend as much as possible, but it is difficult to eradicate all the pressures as some are externally driven. Damp & mould and disrepair cases are causing severe pressures on the repairs budget. While having fallen since its peak in late 2022, inflation remains stubbornly high. Interest rates have risen rapidly over the course of the year and the cost-of-living crisis is putting pressure on the household budgets of tenants and leaseholders.

1.3. These more recent pressures come on top of longer-term financial challenges for the HRA which go back to the period 2016-2020 when the government obliged social housing providers to reduce their rents, reducing income to investment in their stock. The Chalcots evacuation and subsequent investment in fire and building safety works as well as inflation have all added to the HRA's expenditure exceeding the HRA's income. HRA's income can be limited at short notice e.g. for 23/24 budgets, central government implemented a cap of 7% rent increase at a time when CPI was at 10.1%- the rent limits and short notice of caps although helpful to tenants and housing benefit/universal credit bill affordability, makes it challenging to plan medium term of the HRA's finances as well as creating pressures to the HRA. The HRA has operationally overspent in the last four years- which is a structural pressure in funding social housing, that is being seen across local government nationally.

1.4. The 2024/25 budget must focus on the financial sustainability of the HRA, eradicating overspends, delivering on MTFS (medium term financial strategy) savings and replenishing the reserves.

2. 2024/25 BUDGET PRESSURES

2.1. **Inflation and Corporate** – while CPI inflation has fallen since its peak of 10.7% in November 2022, it was still 6.7% in September 2023. Prior to 2022, inflation was last above 6% in 1992. The HRA has many types of cost inflation:

- Staff inflation is determined following national negotiations and is therefore not a controllable factor. For the past two years, the negotiations have been slow and the result higher than assumed budget. Therefore, pressure from 23/24 pay (settlement agreed November 2023) will need to be included with 24/25 estimate to ensure fully budgeted.
- Some external contracts are index-linked, and these fluctuate month on month and run at different rates to CPI (e.g. RPI was 8.9% vs CPI of 6.7% for September 2023.)
- Energy costs have fallen since their peak in mid-2022 but remain high by historical standards. The Council should know the full cost of its 2023/24 supply in late November and receive updated forecasts for the first half of 2024/25 from LASER.
- Insurance premiums have significantly grown in recent years beyond CPI levels.

2.2. **Investment in Stock: Interest rates** have continued to increase during 2023/24. Much of the HRA's borrowing is from the General Fund at a floating rate (so called internal borrowing), so the HRA is exposed to the rapid rise in interest rates. The HRA's rate of internal borrowing is now 4.6% compared with 1.13% before the 2023 "mini budget". The Bank of England have been increasing the base rate in response to rising inflation. There is also growing need to set aside more for capital investment in stock through better homes, above and beyond the statutory minimum contribution to MRR (currently £38m per annum). This would over time reduce pressures in the revenue repairs budgets but not immediately.

2.3. **Disrepair** and **damp & mould** cases remain a pressure on the repairs budget and are the source of much of the forecast overspend in this area. Disrepair has a triple impact on costs; settlement to disrepair companies claiming on behalf of residents, cost of repairing the site, cost of legal team processing the claims. Pressure in responsive repairs, disrepair and damp and mould can be traced directly back to the enforced under-investment in the stock caused by government policies of rent reduction or rent capping. Alongside budgeted fire and building safety works, they have reduced the resources available for responsive repairs and capital maintenance works.

2.4. Further regulation has been introduced through the **Social Housing (Regulation) Act 2023** which gained Royal Assent earlier in the year, to add to the Fire Safety Act 2021 and the Building Safety Act 2022. The full extent of the Social Housing cost is not yet known but there will be regulator fees based on stock size and a call on resource to ensure compliance. The council continues to invest significant sums on fire and building safety, without any contributions from central government for the HRA. This then limits funds available to invest in stock and services.

2.5. **Transfer to HRA reserve-** The HRA reserve has provided protection at times of need but has been depleted in recent years and it is critically important that it is replenished as quickly as possible to ensure it is financially stable over the medium term.

2.6. Offsetting some of these pressures are the MTFS savings for 24/25 totalling £3.1m, as approved by Cabinet in January 2023. It is important that the savings can be achieved otherwise it would result in an overspend to the balanced HRA budget.

3. RENTS

3.1. As the HRA receives no government subsidy even related to new burdens such as Building Safety, Fire Safety, Damp and Mould, Social Housing regulations, the only source of funding is from rents and service charges- predominantly from rents.

3.2. Under the current rent standard, the Council can increase rents up to a maximum of inflation (Sept CPI 6.7%) plus 1%. The rent standard recognises that the HRA needs to be able to fund more than inflation each year to operate due to being ringfenced and without external funding for items as referenced in the pressures section above.

3.3. The maximum permitted rent increase for 2024/25 would be 7.7%, which would generate £10.5m in income for the HRA, costing an average 2 bed property £10.12 extra per week. Average rents for Camden if increased by 7.7% next year would still be c.£12 per week lower than they would be if increased just by CPI since 2015/16 (due to four years of 1% reductions and fixed cap at 7% vs CPI 10.1% for 23/24).

3.4. The impact on average rents is shown in Table One below.

Table One - Rent 2024/25

Bed size	Average Rent 23/24	Increase 7.7%	Average Rent 24/25 7.7%
0	£97.28	£7.49	£104.77
1	£115.87	£8.92	£124.79
2	£131.49	£10.12	£141.62
3	£147.40	£11.35	£158.75
4	£163.77	£12.61	£176.38
5 +	£180.19	£13.87	£194.06

3.5. Rent is eligible under housing benefit and universal credit. Information on Camden's website on support for residents is available here: https://www.camden.gov.uk/cost-of-living-support .

3.6. DMC members will be asked for their views on the Council's strategy to consider rent increases from April 2024 at the joint DMC meeting in January.

4. SERVICE CHARGES

4.1. Tenants pay fixed service charges for caretaking, grounds maintenance, CCTV, mobile security, concierge, maintenance of mechanical and electrical equipment in communal areas and block and estate lighting, if they receive that service.

4.2. If service charges are raised by underlying inflationary pressures for each service, this would mean increases to charges as shown in **Table two** below, generating c. £0.8m. These service charges are eligible under housing benefit and universal credit.

Tenant weekly service charges	2023/24 weekly charge	2024/25 weekly increase	2024/25 weekly charge	Additional income £m
Caretaking	£11.27	£0.56	£11.83	0.36
Communal Lighting	£2.78	£0.31	£3.09	0.20
CCTV	£1.09	£0.05	£1.14	0.03
Communal M&E Maintenance	£1.39	£0.06	£1.45	0.04
Ground Maintenance	£2.05	£0.21	£2.26	0.13
Responsive Housing Patrol	£0.70	£0.05	£0.75	0.03
	£19.28	**£1.24**	**£20.52**	**0.80**

4.3. Additionally, some tenants pay for the enhanced CCTV service (as agreed at January 2019 Cabinet) once the new cameras are installed. The charge is £1.12 per week (on top of the CCTV maintenance charge) for 7 years. The original approved amount was £2.10 per week including CCTV maintenance which was then 98p. Therefore, the incremental charge for enhanced CCTV service was agreed to be £1.12 per week.

4.4. DMC members will be asked for their views on the Council's strategy to consider a service charge increase from April 2024 at the joint DMC meeting in January. As the charges fund the inflated cost of the current services, any reduction in funding would mean that the service would have to be scaled back in the medium term.

5. HEATING POOL

5.1. At January Cabinet 2023, in recognition of a significant spike in gas and electricity prices, scales were increased by 175% and credits totalling £3.5m were applied to accounts to limit the increase to residents on scales to 125%. It was also agreed that the heating pool deficit (created by heating charges being less than actual costs to the HRA of gas and electricity during 2022/23) would be carried forward and recovered in later years.

5.2. The recommended level of heating scales is not yet known for 24/25 because this is subject to review, following updates from LASER on next year's price forecasts, but the significant deficit will need to be considered.

5.3. As the market stabilises, once the heating account has restored its own reserves and shows a net surplus, as per in previous years, DMCs will be asked whether this surplus should be held for future price volatility, reinvested or a refund, or a combination. However, it is not expected there would be a surplus in 24/25 so this would be a discussion with DMCs in future years.

5.4. A separate meeting is being scheduled during December which will focus on the heating pool following a request from Camden Town DMC to provide more information ahead of January's DMC meeting.

5.5. DMC members will be asked to consider the recommendation on heating charges for 2024/25 at January DMC meeting.

6. FORMAL CONSULTATION

6.1. The joint DMC meeting will take place on 10 January 2024. The January report will contain details of all proposals being taken to Cabinet as well as considerations around affordability.

6.2. A list of the consultation questions that will be put before DMCs is in **Appendix B.**

Report Ends