

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE Housing Revenue Account (HRA) 25/26 Budget update	
REPORT OF Director of Finance	
FOR SUBMISSION TO Housing Scrutiny	DATE 10 th December 2024
<p>SUMMARY OF REPORT</p> <p>This report provides an update on the HRA ahead of the January Rent and Budget Setting Cabinet report.</p> <p>Local Government Act 1972 – Access to Information</p> <p>The following documents have been used in the preparation of this report:</p> <p>No documents that require listing have been used in the preparation of this report.</p> <p>Contact Officer: Emma Cardoso Strategic Finance Lead - Housing London Borough of Camden 5 Pancras Square London N1C 4AG Telephone: 02079746513 Email: emma.cardoso@camden.gov.uk</p>	
<p>RECOMMENDATIONS</p> <p>That the Committee note the contents of this report and the challenging environment in which the HRA is operating.</p>	

Signed: Daniel Omisore - Director of Finance
Date: 28th November 2024

1. Purpose of Report and context

- 1.1. This report provides an update on the Housing Revenue Account (HRA). The Council is required to set a balanced HRA budget each year and set levels of rent and service charges. This is a matter for Cabinet who will consider a full report on proposals for the 2025/26 budget in January 2025.
- 1.2. The mid-year forecast in 24/25 predicts an overspend in the HRA of £3.5m. The main pressures relate to:
 - **Repairs**, including compensation and legal fees relating to disrepair cases.
 - **Insurance** these costs have been increasing over the past few years beyond budgeted levels.
 - **Higher depreciation cost** for HRA assets, this means that a higher contribution must be made to the Major Repairs Reserve (MRR) and used for capital investment in the stock.
 - **High interest rates** (variable average 4.9%) which affects the borrowing budget. It is projected that interest rates should fall in 25/26 so this should not be a pressure next year.
- 1.3. The overwhelming financial pressures, caused by the previous government's austerity-driven policies, has jeopardised the funding of social housing across the country. The self-financing regime has been completely undermined with the funding system for social housing fundamentally broken - its foundations require fixing. Residents may be interested to read in more detail about the [Future of Social Housing report](#) that was presented and signed by many Councils which asks Government to step in and make the financial model sustainable again. The original settlement deal has been deviated from in many ways- not just the assumed income streams which were originally RPI + 0.5% + £2/week and are now subject to Rent Standards (recent years Consumer Price Index "CPI" + 1%) or in the case of the Welfare Reform (16/17-19/20) 1% annual cuts for 4 years. It has been calculated that the HRA has lost £168m of rental income since 2016 vs what it would have received if the policy had been kept consistent at CPI + 1%, this is all money that could have been reinvested into the HRA stock and services. Other assumptions have changed since the settlement from level of investment needed to the running costs of the services and repairs. Added to which there has been multiple years of new regulatory pressures to absorb- Fire Safety, Building Safety, Social Housing, with no burdens funding and new costs to pay to regulator and to be compliant with the new rules. The new regulations also impact Capital budgets, which has a knock-on effect to the wider better homes programme in terms of prioritising works. Camden officers always bid for available grants but the funding available compared with the scale of the capital need is minimal.
- 1.4. The main source of income for HRA is from social rents and the increases in rents are limited to the Rent Standard, which for 2025/26 has been confirmed as CPI + 1%. CPI was 1.7% for September 2024, meaning increases are limited to a maximum of 2.7%. Income from tenants' service charges and leaseholders are based on the actual cost of those services provided. The government has announced at the autumn budget that it is launching a consultation about

another 5 year Rent Standard of CPI + 1%, with a possibility to set a 10 year agreement. Camden will be drafting a reply over the next couple of months and will reiterate the wider financial support that the HRA requires as part of the response. Greater certainty is welcome however the simple fact is that rent increases of CPI + 1% are not sufficient to cover the full cost of managing and maintaining the stock and further budget savings will be needed in 2025/26 and future years.

- 1.5. The 2025/26 budget must focus on the financial sustainability of the HRA, eradicating overspends, delivering on MTFs (medium term financial strategy) savings and replenishing the reserves. In absence of any external funding interventions, for the Housing Revenue Account to remain financially stable the Council will need to continue to take difficult decisions. This will include the delivery of savings already agreed as part of the current MTFs and will require further budget savings to allow the Council to set a balanced HRA budget for next year.

2. 2025/26 Budget pressures and savings

- 2.1. Inflation and Corporate – CPI inflation has fallen significantly since its peak of 10.7% in November 2022, to 1.7% in September 2024. However, this is not the only cost inflation the HRA is impacted by. 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 few years, the negotiations have been slow and the result higher than assumed budget.
 - Some external contracts are index-linked, and these fluctuate month on month and run at different rates to CPI (e.g. RPI was 2.7% vs CPI of 1.7% for September 2024). The construction industry costs are often linked to BCIS indices, which are currently higher than CPI (around 3.4%) and therefore impacting the Repairs budgets.
 - Energy costs have fallen since their peak in mid-2022 but remain high by historical standards.
 - Insurance premiums have significantly grown in recent years beyond CPI levels.
- 2.2. In the recent Autumn Budget, it was also announced that Employers' National Insurance contributions will increase from April 2025. The secondary Class 1 National Insurance (employer) threshold will decrease from £9,100 to £5,000 per annum, and the main rate of secondary Class 1 National Insurance (employer) contributions will increase from 13.8% to 15%.
- 2.3. Depreciation has increased significantly. The HRA must transfer the full cost equivalent of its depreciation to the Major Repairs Reserve every year. This is then used to fund capital investment of HRA stock.
- 2.4. Further regulation has been introduced through the Social Housing (Regulation) Act 2023 which gained Royal Assent last year, to add to the Fire

Safety Act 2021 and the Building Safety Act 2022. The Social Housing (Regulation) Act 2023 will introduce Ofsted and CQC-style inspections for social housing providers against the Regulator for Social Housing's consumer standards. As a landlord, Camden is making informed investment decisions to be able to improve the quality of its' housing stock, as well as have a deeper understanding of the needs of tenants which will inform the way the Council communicates and engages with tenants. To ensure regulatory compliance, the Council has increased staffing costs to work on the Housing Transformation Programme, which is a cross-Council corporate effort aligning housing and repairs 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 25/26 totalling £1.48m, as approved by Cabinet in January 2023. It is important that the savings continue to be achieved otherwise it would result in an overspend to the balanced HRA budget. Directors have confirmed their ongoing commitment to deliver these. The only change is that the budget from Chalcots project cannot yet be released to add to Spring Clean budgets. This is because the Chalcots project is due to finish Summer 2025, work is underway to all five towers and a new A1 fire rated cladding and curtain wall system is being installed. See Table One below.
- 2.7. Due to the scale of the pressures compared to the income available, the HRA budget is currently out of balance for 2025/26. New savings options are being reviewed with directors. These will be tabled at the December DMC meeting as they are not yet confirmed.

Table One:

Savings proposals agreed in 22/23	Savings target 25/26 £m
Rental income from reletting properties in the commercial properties portfolio	0.05
Garage Rents	0.13
Reviewing Our Services to Leaseholders	0.35
Rent Collection - Bad Debt Provision	0.25
Housing Transformation	0.30
Efficiency in property management	0.00
Family Friendly Strategy	0.40
Repairs efficiency	0.00
Re-allocation of Spring Clean Budget 2023/24 and 2024/25	-1.00
Re-allocation of Chalcots funding from 2025/26 upon completion of Works	1.00
Total savings proposed	1.48

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 1.7%) 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 2025/26 would be 2.7%, which would generate £3.7m in income for the HRA, costing an average 2 bed property £3.84 extra per week. Average rents for Camden if increased by 2.7% 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 Two below.

Table Two - Rent 2025/26

Bed size	Average Rent 24/25	Increase 2.7%	Average Rent 25/26 2.7%
0	£105.12	£2.84	£107.95
1	£125.28	£3.38	£128.67
2	£142.11	£3.84	£145.94
3	£158.96	£4.29	£163.26
4	£176.93	£4.78	£181.71
5+	£194.26	£5.25	£199.51

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>.

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 three below, generating c. £0.9m. It is proposed to freeze Communal Lighting charges to reflect a forecasted reduction in the cost of electricity. These service charges are all eligible under housing benefit and universal credit.

Table three- Tenant service charges

Tenant weekly service charges	2024/25 weekly charge	2025/26 weekly increase	2025/26 weekly charge	% change
Caretaking	£11.83	£0.59	£12.42	5%
Communal Lighting	£3.09	£0.00	£3.09	0%
CCTV	£1.14	£0.08	£1.22	7%
Communal M&E Maintenance	£1.45	£0.07	£1.52	5%
Ground Maintenance	£2.26	£0.27	£2.53	12%
Responsive Housing Patrol	£0.75	£0.05	£0.80	7%
	£20.52	£1.06	£21.58	

- 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 In June 2024, Cabinet agreed to the procurement strategy for Grounds Maintenance (Grounds Maintenance and Tree Management are two different contracts). The procurement strategy required the extension of the current contract for one-year – 2025/26 – to allow for the partial insourcing of the service from April 2026. This strategy also included a break clause at 3 years to allow consideration of full insourcing of the housing service at that point. The 2025/26 increase includes additional inflationary pressure for the service as well as extensive repair costs due to the vehicle age/ condition following 7 years of intensive use.

5. HEATING POOL

- 5.1. At January Cabinet 2023, in recognition of a significant spike in gas and electricity prices, heat scales for 23/24 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. At January Cabinet 2024, 24/25 heat charges were effectively frozen to repay the HRA for the deficit incurred.
- 5.2. Work is underway to refresh the heating pool using the latest updates from LASER on next year's price forecasts. As at March 2024, the heating pool was still in deficit as predicted but it is forecast that the deficit will be much smaller by March 2025 (based on forecasts from earlier in the year). The Q2 forecast shows that costs are lower than budgeted but as prices remain volatile, it is too early to confirm in this report how this will impact the scales for next year.

6. Next Steps

- 6.1. The HRA budget and charges for 2025/26 will be shared at the January Housing Scrutiny and Cabinet for further consideration.

7. Finance Comments of the Executive Director Corporate Services

Comments from the Executive Director Corporate Services have been included within the report.

8. Legal Comments of the Borough Solicitor

The Borough Solicitor has been consulted and has no further comments to add.

9. Environmental Implications

There are no environmental implications arising from this update report.

REPORT ENDS