


## London Borough of Waltham Forest

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Report Title	Housing Revenue Account (HRA) Budget, including Tenants Rents and Service Charges 2025/26
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Meeting / Date	Cabinet, 20 <sup>th</sup> February 2025
Cabinet portfolio	Councillor Ahsan Khan, Deputy Leader (Housing and Regeneration) 
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Wards affected	All
Public access	Open
Appendices	Appendix 1 – HRA budget 2025/26 onwards Appendix 2 – 10-year capital programme Appendix 3 – Equalities Impact Assessment

### Summary

- 1.1 This report sets out the proposals for the Housing Revenue Account (HRA) rents and service charges for 2025/26.
- 1.2 The report also contains charges for temporary accommodation and travellers' charges, which are a General Fund provision.

### 2. Recommendations

- 2.1 Cabinet is recommended to:
  - 2.1.1 Agree a HRA dwelling rent increase of 2.7% (September CPI + 1%) in line with The Regulator Social Housing's Rent Standard and agree that on average rents will increase by £3.44 from £127.29 to £130.73 per week, with effect from 1<sup>st</sup> April 2025.
  - 2.1.2 Agree the level of tenant service charges as set out in paragraph 3.12 so as to recover all costs from tenants receiving the service.
  - 2.1.3 Agree an increase in garage rents of 5% (£0.87) for residents and 30% (£5.72) for non-residents, from 1<sup>st</sup> April 2025.
  - 2.1.4 Note the increase in shared ownership rents in line with the provisions of the relevant lease.
  - 2.1.5 Review the proposals for the HRA Budget for 2025/26, as set out in section 3.9.

- 2.1.6 Increase the rent and service charges for sheltered accommodation by 2.7%, in line with the rent increase for general needs council housing.
- 2.1.7 Note that temporary accommodation rent charges will continue to be linked to Local Housing Allowance (LHA) levels.
- 2.1.8 Agree to increase charges for travellers' sites by 2.7%, in line with the rent increase for general needs council housing.

### 3. **Proposals**

- 3.1 The cost of living crisis has led to changes to economic conditions for the United Kingdom. Inflation has driven prices to rise significantly compared to pre-pandemic levels, with the largest increases in the cost of utilities, materials, and for construction services. Government capped increases to social rents at 7% between 1<sup>st</sup> April 2023 and 31<sup>st</sup> March 2024. This and other constraints mean that the rise in HRA expenditure has been significantly higher than income, which has created a funding gap in the HRA.
- 3.2 Although inflation has declined over the past twelve months, prices are still increasing, albeit at a slower rate. The reduction in inflation has also led to interest rate decreases over the past six months, although rates remain significantly higher than pre-pandemic and pre-mini budget levels.
- 3.3 Further, the Grenfell tragedy and subsequent inquiry led to new requirements being placed upon social landlords to protect the safety of tenants. Although the new regulations are welcomed by the council, they have increased the financial burden on an already stretched HRA.
- 3.4 In addition to the requirements around fire safety, there are several other regulatory changes that have impacted the HRA, placing further pressures on the already stretched budget, and further changes are also expected. These include damp and mould, the need to decarbonise stock, the possibility of Decent Homes Standard 2 being introduced, new mandatory qualification requirements for housing staff and the impact on resources to facilitate the new regulatory inspection regime.
- 3.5 The HRA reserve level is forecast to be £4.1m at the end of 2024/25, (less than 6% of income). This is one of the lowest reserves in London on a per property basis and does not give a sufficient contingency should any more financial, service or regulatory shocks occur.
- 3.6 It is proposed to set a 10-year HRA Medium Term Financial Strategy (MTFS) for 2025/26 onwards and a 10-year Capital Programme. The remodelling of the HRA Business Plan has been delayed to 2025/26 due to the change in government and, specifically the proposed Rent Settlement outlined in the Autumn Statement. The purpose of the Business Plan is to set out the council's plans for managing and maintaining its housing stock (including leasehold properties) and other assets held within the HRA and to rebuild its reserves levels back up to a much more risk tolerant level of 15% of Income by 2028/29. The financial model informs the budget setting and Capital Programme over a 30-year period, setting out the expected income and expenditure for

the HRA based on current and anticipated rents policy and fiscal and economic trends.

- 3.7 A greater focus is placed on the 10-year HRA MTFs as there is more certainty on costs, demands, resources and pressures over this time.
- 3.8 Given the continued pressure on the HRA reserve until the replenishment happens, the HRA 10 year strategy assumes that major new purchases or builds will be made in partnership with other organisations and developers to reduce any need for borrowing and or capital investment by the HRA, at least until 2028/29, once the reserves are up to a 15% of income notional value.

### 2025/26 HRA Budget

- 3.9 The proposed 2025/26 HRA budget is shown in the table below.

	<b>Budget 2025/26</b>
Dwelling Rents	(71,499)
Non-Dwelling Rents	(732)
Tenant Service Charges	(6,626)
Leaseholder Service Charges	(2,771)
Other Charges for Services and Facilities	(100)
<b>Total Income</b>	<b>(81,727)</b>
Repairs and Maintenance	15,623
Special Services	8,780
Supervision & Management	23,563
Rents, Rates, Taxes & Other Charges	991
Provision for Bad Debts	583
Cost of Capital	14,964
Depreciation	14,104
<b>Total Expenditure</b>	<b>78,607</b>
<b>Net cost of Service</b>	<b>(3,120)</b>
Revenue Contribution to Capital Outlay	2,000
Contribution to Reserves	1,120
<b>HRA Surplus/Deficit</b>	<b>0</b>

### Income

- 3.10 The self-financing regime was developed to give local authorities greater financial certainty to develop longer term plans for the HRA. The government announced in the Autumn Statement that they would consult on a 5-year rent standard of CPI + 1% to provide the sector with the certainty it needs to invest in maintenance and delivering new social housing. The consultation will also seek views on other potential options to give greater certainty, such as providing a 10-year settlement.

- 3.11 Dwelling rents are proposed to increase in line with the rent standard set by the RSH, CPI +1% which is an increase of 2.7%. On average rents will increase by £3.44 from £127.29 to £130.73 per week.
- 3.12 Service charges for tenants and leaseholders are based on actual costs of providing the service, which are reviewed annually as part of the budget setting process. The cost of delivering the housing service has increased and so it is proposed to increase service charges to tenants to ensure compliance with the council's policy for full cost recovery.
- 3.13 The council phased the increase in energy prices over a 3-year period to protect tenants from the significant increases in the wholesale market. Energy prices have fluctuated over the past year and therefore service charges for communal electricity and heating will remain unchanged whilst a detailed review is undertaken.
- 3.14 Service Charges will be charged, on average, as follows

<b>Tenant Service Charge</b>	<b>2024/25 £ pw</b>	<b>2025/26 £ pw</b>	<b>Change £ pw</b>
Lifts	3.53	3.62	0.10
Door Entry and Electronic Gate	1.26	1.29	0.03
Communal Aerials	0.37	0.38	0.01
CCTV	2.51	2.58	0.07
Caretaking	7.36	7.68	0.32
Grounds Maintenance	2.40	2.62	0.22
Bulk Waste Bins and Collection	0.69	0.75	0.06
Communal Electricity	6.64	6.64	0.00
Fire safety	2.52	2.59	0.07

- 3.15 Garage rents are proposed to increase 5% (£0.87) for residents and 30% (£5.72) for non-residents. The increase in garage rents has been benchmarked against neighbouring boroughs and remains competitive, whilst ensuring income into the HRA.
- 3.16 The government also introduced new reforms for shared ownership properties. Shared ownership rents can currently be increased by RPI + 0.5%, however, the government has acknowledged that RPI is an outdated measure of inflation and therefore is phasing out its use by the end of the decade. From 12<sup>th</sup> October 2023, new shared owners' rents can be increased by CPI + 1% which brings increases in line with other rent policy for social housing. It is proposed to increase shared owner's rents in accordance with the terms of the lease.
- 3.17 Sheltered accommodation rents and service charges are proposed to increase in line with the rent policy of CPI+1%.
- 3.18 Temporary accommodation rents are set in accordance with the LHA. The current LHA rate was increased to the 30<sup>th</sup> percentile of local market rates in April 2024, however, the government announced in the autumn

statement that LHA would be frozen in 2025. The council is only subsidised by government at 90% of the January 2011 LHA generating an average cost to the General Fund of over £200 per week per household in temporary accommodation. Some temporary accommodation rents include a service charge, such as for heating and hot water, which will be increased in line with service charges.

- 3.19 Travellers charges are proposed to increase by 2.7%, in line with the rent policy for general needs housing. This will equate to an average rent increase of £4.01 per week and a water charge increase of £0.39 per week.

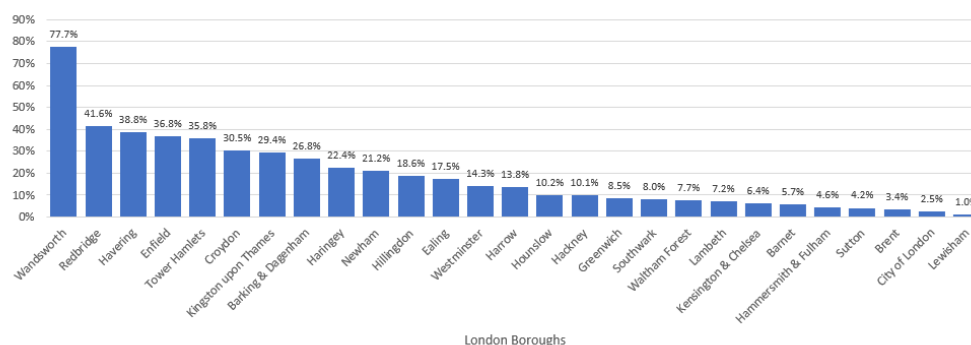
### **Expenditure**

- 3.20 Inflationary increases have adversely impacted the cost of providing the housing service within the HRA, and most significantly the cost of energy and repairs. Considering these cost pressures and the addition of new build properties, the budget for repairs and maintenance has been increased by over 5% to ensure the council can continue to maintain council homes.
- 3.21 In addition, the council's response to damp and mould has been reviewed following the tragic death of Awaab Ishak and the implementation of Awaab's Law. A dedicated Damp and Mould Policy and Taskforce have been established, within existing resources, to manage and prevent condensation, damp and mould effectively.
- 3.22 The wholesale energy markets have seen unprecedented levels of volatility in recent periods, leading to a seven-fold increase in prices compared to pre-pandemic costs. Although wholesale prices have been falling since Autumn 2022, they continue to remain volatile to global events and are unlikely to return to lower pre-pandemic levels for the foreseeable future. In the medium term, energy levels are expected to plateau.

### **Savings**

- 3.23 The HRA has low reserves, and these require replenishing to increase the HRA's financial resilience. The table below shows the average HRA reserves as a percentage of forecast annual spend for London boroughs and illustrates that the council's HRA reserves are low in comparison to many other London boroughs.

Housing Revenue Account Reserves as a percentage of Forecast Annual Spend - 2024/25



3.24 The forecast reserves position for the council is expected to reduce in 2024/25 mainly due to repairs and maintenance costs and the extension of waking watch. These follow a change in the advice provided by the council’s external fire consultants, which followed the release of the Grenfell Inquiry Phase 2 report in September 2024 and the Barking fire in October 2024. With a dedicated contribution to replenishing reserves, the position is expected to improve in the medium term, as can be seen in the table below.

Reserves	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Year	1	2	3	4	5
<b>Reserves Opening Balance</b>	<b>(5,516)</b>	<b>(4,119)</b>	<b>(5,240)</b>	<b>(7,360)</b>	<b>(11,017)</b>
Income	(80,073)	(81,727)	(85,166)	(88,814)	(91,371)
Expenditure	52,103	49,540	51,283	52,932	54,232
<b>Net cost of Service</b>	<b>(27,970)</b>	<b>(32,187)</b>	<b>(33,883)</b>	<b>(35,882)</b>	<b>(37,138)</b>
Capital Financing	16,868	16,104	16,527	16,963	17,262
Interest	12,499	14,964	15,436	15,462	15,244
Savings Target			(200)	(200)	(200)
Contribution to Reserves		1,120	2,120	3,000	4,000
<b>(Surplus)/Deficit</b>	<b>1,397</b>	<b>0</b>	<b>0</b>	<b>(657)</b>	<b>(833)</b>
<b>Reserves Closing Balance</b>	<b>(4,119)</b>	<b>(5,240)</b>	<b>(7,360)</b>	<b>(11,017)</b>	<b>(15,850)</b>

3.25 Waltham Forest policy was previously to hold a minimum 5% reserve balance in the HRA. Following a review of best practice in the sector by the council’s Finance team, the minimum recommended reserve level is 10% of income. The council recognises the need to strengthen the resilience of the HRA and bolster the reserve position, therefore, is

committing to a strategy to increase reserves. The minimum reserve position agreed is £8m, which will be reached by 2027/28.

- 3.26 The Housing service has also committed to an efficiency programme to reduce the net cost of the service. The service will be reviewed yearly for efficiencies to achieve £0.2 million savings per year without affecting the delivery of the housing service.

#### **HRA Capital Programme**

- 3.27 The Capital Programme was scaled back in 2024/25 due to limited resources. Due to the low levels of reserves, the Capital Programme has re-prioritised investment in existing stock over new housing delivery. The 2025/26 Capital Budget is listed in the table below and the 10-year programme is detailed in Appendix 2.

<b>Capital Programme</b>	<b>2025/26 £000's</b>
Property Services	37,922
Regeneration	3,923
Other Schemes	8,046
<b>Total Programme</b>	<b>49,891</b>
Capital Resources	(33,877)
Funded from borrowing	(16,014)

- 3.28 Over the next 10 years, the planned investment in capital is £418.8m with £147m funded from borrowing. This is because the HRA does not generate sufficient resources to cover the investment required in assets and, therefore, the programme is part funded by borrowing. Although interest rates have fallen over the past six months, the cost of borrowing is still high compared to pre-pandemic levels. The average annual cost of the investment required in existing stock is currently £36.1m with £16.3m funded from borrowing.
- 3.29 The new 30-year Business Plan will assist in developing a strategy to manage the level of debt within the HRA. The Business Plan will consider a component replacement strategy, which will model the planned works required to ensure investment in existing assets can be prioritised and how this can be funded. There will be a balance to be struck between the management of the level of debt within the HRA and replenishing reserves.
- 3.30 The corporate Treasury Management Strategy will also consider options to minimise the cost of borrowing to the HRA with the use of internal borrowings but the timing of changes to interest rates will also have a significant impact.

#### **4. Options & Alternatives Considered**

4.1 The 2023/24 Rent Cap resulted in a £2.5m reduction in income collected within the HRA. The reduction is compounded for future years and, therefore, affected the resources available for capital investment. The effect of a below inflation increase would further reduce the resources available and impact how effectively the Housing service and could manage and invest in the borough's housing stock.

4.2 Alternative rent increases were considered in setting the budget, but any reduction to the rent policy set by The Regulator of Social Housing would result in a requirement for additional savings to be made, which would impact on the services provided to tenants. A reduction to the Rent Standard would also have a long-term impact on future rent levels and therefore income.

## 5. **Council Strategic Priorities (and other National or Local Policies or Strategies)**

5.1 The Council produces and regularly updates a medium-term financial forecast for the HRA. Inflationary and cost pressures mean that the HRA's expenditure (on both revenue and capital) is forecast to rise faster than rental income available to it, creating a funding gap. Overall, the medium-term outlook for the HRA is extremely challenging, but the financial strategy will remain focused on delivering efficiency improvements to protect frontline services, invest in housing stock and build in longer-term financial resilience by increasing reserves.

## 6. **Consultation**

6.1 Consultation with tenants via the Resident Influence and Accountability Panel (RIAP), to discuss the HRA budget was carried out in January 2025. The proposals in this report were also presented to Housing Scrutiny in December 2024, there were no additional recommendations to the proposals.

## 7. **Implications**

### 7.1 **Finance, Value for Money and Risk**

7.1.1 The recommended increase in rents in line with central government policy is essential to allow the HRA to remain financially viable. It also ensures that the HRA can continue to work towards its objectives of sustaining the capital investment needed to maintain the stock and fulfil its programme of capital delivery to ensure compliance with health and safety regulations.

7.1.2 The current Local Housing Allowance rate was increased in April 2024, however this was frozen for 2025/26. The council only receives housing benefit subsidy at 90% of the 2011 LHA levels for Temporary Accommodation and so the council funds the shortfall which is more than £250 per week for every household.

### 7.2 **Legal**



- 7.2.1 Section 76 of the Local Government and Housing Act 1989 imposes a duty on local housing authorities to prevent debit balances arising in their Housing Revenue Account (“the HRA”). The HRA is a record of revenue expenditure and income in relation to an authority’s own housing stock.
- 7.2.2 The principal statutory provision governing the fixing of rent for Council property is contained in section 24 of the Housing Act 1985, which provides that authorities may “make such reasonable charges...as they may determine.” Further, it requires the local authority, from time to time, to review rents and other charges and make such changes, as circumstances may require.
- 7.2.3 These provisions are subject to the limits set out in the Rent Standard set by the Regulator of Social Housing and the Governments Policy statement on rents for social housing published in February 2019. The Government announced from 2020/21 onwards for 5 years rent increases would be allowed up to CPI plus 1%.
- 7.2.4 The provisions on tenant consultation set out in S105 of the 1985 Act do not apply to rent or service charge increases. Service charges are outside the rent envelope as they relate to the recovery of actual costs but are subject to the requirements of notice of variation and the provisions of our tenancies/leases. They are limited to recovering costs incurred.
- 7.2.5 The Equality Act 2010 requires public authorities to have due regard to the need to eliminate discrimination and advance equality of opportunity. The Council must further take into account its wider Public Sector Equality Duty (PSED) under s.149 of the Equality Act 2010 when making its’ decisions which are outlined in 7.3 below. The equalities impact analysis carried out into the proposals is set out at Appendix 3.

### 7.3 **Equalities and Diversity**

- 7.3.1 The Council must have due regard to its Public Sector Equality Duty (PSED). The Council will consider the impact of its budgetary decisions on these duties. Mitigating action will be identified wherever possible. The outcome will be reported as an integral part of the HRA/rent setting report to be considered in February which will include an equalities analysis.
- 7.3.2 The Equality Act 2010 requires public authorities to have due regard to the need to eliminate discrimination and advance equality of opportunity. The Council must further take into account its wider Public Sector Equality Duty (PSED) under s.149 of the Equality Act 2010 when making its decisions. The public sector equality duty (s.149, Equality Act 2010) requires the Council, when exercising its functions, to have “due regard” to the need to: eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited under the Act, advance equality of opportunity between those who share a “protected characteristic” and those who do not share that protected characteristic and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (this

involves having due regard, in particular, to the need to (a) tackle prejudice, and (b) promote understanding).

7.3.3 The Council will consider the impact of changes that might arise as a result of implementing the proposals for change arising out of its HRA strategy on those with protected equality characteristics. Individual proposals will be subject to a full equality analysis wherever relevant, prior to any decision taken to proceed, including the identification of mitigating action where possible. Where there is any potential impact on staff, the agreed HR procedures will be followed.

#### 7.4 **Sustainability (including climate change, health, crime and disorder)**

7.4.1 The capital programme includes provision for communal boiler replacement, energy efficiency improvements, heat recovery ventilation, anti-condensation programmers and boiler upgrades to a more efficient standard after 10-12 years. There would be an impact on delivery of this should there not be sufficient resources available within the HRA.

7.4.2 The current HRA budget proposal ensures funding is available for the repairs and maintenance of service to continue their focus on tackling damp and mould alongside other essential repairs that support residents to live in a healthy, safe home. To mitigate the impact on residents of the rent increase there are Welfare Benefits Officers employed within the Rents Team to support tenants to maximise their income. The housing service also fund Citizens Advice to provide independent advice to residents struggling with their financial situation. The Independent Living Service includes Community Independent Living Officers, who provide floating tenancy sustainment support to vulnerable residents. These services support the wellbeing of the most vulnerable residents in council housing.

#### 7.5 **Council Infrastructure**

7.5.1 Any proposals to review the budget which involved staff reductions would be subject to consultation with staff.

### **Background Information (as defined by Local Government (Access to Information) Act 1985)**

None