Cheltenham Borough Council

Cabinet Meeting – 19th December 2023

Housing Revenue Account - Interim Budget Proposals

2024/25 and revised Forecast 2023/24

Accountable member:

Cllr Peter Jeffries – Cabinet Member Finance and Assets

Accountable officer:

Paul Jones – Executive Director Finance, Assets and Regeneration (Section 151 Officer)

Accountable scrutiny committee:

Budget Scrutiny Working Group

Ward(s) affected:

All

Key/Significant Decision:

No

Executive summary:

This report summarises the Cabinet's budget proposals for the Housing Revenue Account (HRA) for 2024/25 and the revised forecast for 2023/24.

The last 18 months has been a turbulent period economically and politically in the UK. As the country exited pandemic-related restrictions it entered a period of international supply chain restrictions leading to rising inflation. This was substantially worsened by the energy price shock arising from the invasion of Ukraine with the Bank of England increasing interest rates to the current 5.25% to try to stem inflation. Added to this have been tax rate rises and other tax thresholds being frozen while government department spending is restrained which has put further pressure on local government finances and household incomes.

Government, however, have confirmed that rent policy for 24/25 will be to increase rents by September CPI +1% giving rise to a 7.7% increase across all tenures which will support, at least in the short term, the investment proposed in this budget paper into new homes, existing homes, other core landlord

services and further support for tenants and communities whilst the cost-of-living crisis is still very real for many.

The Council's corporate plan sets out a big ambition to increase the supply of affordable homes, a comprehensive approach to the climate agenda and the ongoing need to modernise and continuously improve services for residents. The Council has committed to deliver jobs and opportunities for all and tackle poverty through the Golden Valley development, enhancing Cheltenham's position as the Cyber Capital of the UK.

Despite the challenges facing the HRA the Council believes it is important to continue to invest in growing the HRA in order to maintain long term financial viability for the benefit of both tenants and our communities. The 23/24 budget reflected this approach, and the long-term position is now showing signs of improving with interest cover projected to increase and terminal debt levels reducing below the high point modelled last year. Careful management of resources and plans for growth are still required during 24/25 and will allow the Council to continue to provide essential and value-added support for tenants and communities.

The Council has already been successful in three bids to the Government's Social Housing Decarbonisation Fund with total funding to date of £3m. Combined with investment from the HRA this will enable the Council to improve 236 homes to at least EPC C by the end of 24/25. The four-year capital programme includes a further £11.1m of investment in sustainability measures for an estimated 430 homes. This will support tenants to save on their energy consumption, benefit from improved comfort levels in their home and help to improve their overall health and wellbeing.

Investment in core landlord services and community services remains a key priority whilst ensuring operating costs are being controlled to deliver value for money. These services continue to be delivered collaboratively with other partners to increase the scope and impact for customers and communities. Timely feedback on these services from customers is achieved through quarterly telephone surveys with a target of reaching out to 20% of our customers each year. This feedback forms a crucial part of our planning for service changes and improvements to ensure high performance and satisfaction is maintained. The most recent full year benchmarking analysis shows performance and satisfaction being quartile 1 (75% of 28 measures) and quartile 2 levels compared to peers.

Beyond the core landlord services the budget will ensure we are able to maintain our Benefit and Money Advice service particularly supporting those in financial hardship; our Training and Employment service which supports digital inclusion, job clubs, skills hubs and young people who are at risk of exclusion from school; and our community investment teams which run programmes throughout the year focusing on young people, health and wellbeing, individuals impacted by Adverse Childhood Experiences and a Housing First pathway - permanently housing rough sleepers with intensive tenancy management support.

The interim budget proposals set out in this paper for 24/25 demonstrate the importance of investing both to strengthen the HRA for the long term and to improve the homes and services provided to our customers whilst strengthening tenant scrutiny and listening and acting on what our tenants say to help improve and influence housing services.

Bringing CBH back into the Council will also help to strengthen the housing service by creating a single organisation of larger scale which will be better placed to respond to the new regulatory framework for housing and maximise opportunities for growth ensuring resources go further as we continue to deliver for our customers.

Recommendations:

1. Approve the interim HRA budget proposals for 2024/25 (shown at Appendix 2) for consultation including a proposed rent increase of 7.7% and changes to other rents and charges as detailed within the report
2. Approve the proposed HRA capital programme for consultation as shown at Appendix 3 and the detailed capital programme in Appendix 4
3. Note the revised HRA forecast for 2023/24
4. Delegate authority to the Executive Director Finance, Assets and Regeneration, in consultation with the Cabinet Member for Finance and Assets, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation
5. Seek consultation responses by 31st January 2024

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1. Implications

1.1. Financial implications

As detailed in the report and appendices.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 officer)

1.2. Legal implications

Under the Constitution Cabinet has responsibility for the preparation and consultation on the Council's budget. The final budget will be subject to consideration and approval by Full Council in February 2024.

There are no specific legal implications arising from the report. Where legal matters arise from the recommendations contained within the report, officers will seek advice from One Legal.

Signed off by: One Legal, legalservices@onelegal.org.uk

1.3. HR implications

Relationships with the two recognised trade unions continue to remain very positive. The Leadership Team and the HR team will continue to work closely with TU colleagues in order to ensure that any potential impact on employees as a result of realisation of budget savings are kept to a minimum.

Signed off by: Ann Wolstencroft, Head of Performance, Projects and Risk, ann.wolstencroft@cheltenham.gov.uk

1.4. Environmental and climate change implications

The budget includes investment in the retrofit of existing homes through a fabric first approach, to make them as energy efficient as possible for the benefit of customers, investing in new low carbon homes, and improving the energy efficiency of operations to support the aim of making Cheltenham net zero carbon by 2030.

A reduction in energy consumption leads to a reduction in overall greenhouse gas emissions, and therefore aligns with our Climate Emergency Action Plan. The investment in the capital programme will expedite our progress towards becoming a net zero Council.

Signed off by: Paul Jones, Executive Director Finance, Assets and Regeneration, 01242 264365

1.5. Property/asset implications

The budget includes investment in both existing homes and delivery of new affordable homes for the HRA.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 officer)

1.6. Corporate policy framework implications

The actions outlined in this budget proposal will help ensure that the council can deliver its corporate objectives as set out in the Corporate Plan.

Signed off by: Paul Jones, Executive Director Finance, Assets and Regeneration, 01242 264365

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2. Promoting equality and reducing discrimination

An equality impact assessment will be presented with the final budget proposals following the consultation period ending on 31st January 2024.

3. Performance management – monitoring and review

The budget for the HRA is monitored by the CBC Finance team and Cabinet throughout the year and reported to Cabinet and the Budget Scrutiny Working Group during the year.

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4. Background

4.1. The Council's Constitution requires the Cabinet to prepare interim budget proposals for consultation. The Cabinet is then required to draw up its firm budget proposals, having regard to the responses it has received during the consultation period, and present its report to Council in February 2024.

4.2. Government Policy

4.2.1. Rent policy guidance for 2024/25 has been confirmed by Government as being September CPI +1% however future rent policy beyond 24/25 is uncertain with a consultation expected later this financial year with a decision on the policy in the first half of next financial year. The current stated policy of above CPI rises supports investment in the sector for new supply, compliance and improving existing homes.

4.2.2. Tax rises and caps on benefits increase pressure on rent arrears and homelessness provision however in the recent Autumn Statement confirmation was given that following the freeze on the Local Housing Allowance LHA since April 2020 the rate will be restored to the 30th percentile (meaning the LHA rate will fully cover the rent of up to three in every 10 homes in Cheltenham) from April 2024. Whilst the monetary amount for the LHA in Cheltenham for 24/25 has not yet been fixed the unfreezing of this allowance should allow the rent rise to be fully reflected in new affordable rents in 24/25.

4.2.3. The National Living Wage will rise by 9.8% to £11.44 an hour for individuals aged 21 and over. The Chancellor also confirmed Universal Credit and other benefits would increase from next April by 6.7% in line with September's inflation figure and the state pension would increase by 8.5%.

4.2.4. Wave 2.1 of the Government's Social Housing Decarbonisation Fund (SHDF) was launched in September 2022 to support the installation of energy performance measures in social homes in England. £778 million of government funding was allocated for Wave 2.1 of which £2.2m was successfully won for Cheltenham. Wave 2.2 is for providers not successful in Wave 2.1. Wave 3 is likely to be launched in the Autumn of 2024 and clarity is needed on the requirements for this tranche of funding and whether it will be available to support retrofit works planned for 25/26.

4.2.5. The cost of additional compliance and other regulations continues to feed through to the HRA relating to electrical safety, fire safety, building safety, DMC (damp, mould, condensation) and complaints handling as well as the cost of supporting the work of the Regulator. Further regulatory changes by Government may arise once the current review of the Decent Homes Standard is concluded, expected in 2024.

4.2.6. Short term certainty has been provided by Government as noted above however longer term, beyond 1 year, policy on areas such as rents is needed to support the Council's ambitious plans for Cheltenham.

4.3. Current Operating Environment

4.3.1. Councils, including Cheltenham, are experiencing a period of significant challenge and funding pressure as the demand for services continues to rise whilst the cost of providing these services has increased substantially over the last 12 months.

4.3.2. Inflation in the construction and maintenance sector and high interest rates impact financial viability and timing of delivery of new build schemes and acquisitions of properties. Many housing providers in the sector have reduced or delayed their new build programmes due to these financial pressures.

4.3.3. In the job market turnover of staff is slowing but the challenge on recruitment and retention remains; due to strong pay growth in the private sector there is a greater reliance on subcontractors to deliver certain maintenance services meaning further upward pressure on costs.

4.3.4. The current operating environment has improved slightly from last financial year; the expected growth in rental income and the easing of pressure on the HRA's cost base will allow the financial position to recover modestly in 24/25. However, there is still a reduction in capacity of the HRA from previous years and therefore the scale and pace of future investment needs to be managed carefully.

4.4. Cheltenham's Corporate Plan

4.4.1. Cheltenham Borough Council's corporate plan sets out a big ambition to increase the supply of affordable homes, a comprehensive approach to the climate agenda and the ongoing need to modernise and continuously improve services for residents. The Council has committed to deliver jobs and opportunities for all and tackle poverty through the Golden Valley development, enhancing Cheltenham's position as the Cyber Capital of the UK.

4.4.2. The Council has a clear strategy to deliver these ambitions in respect of housing and housing services, that recognises that living in a high quality, safe, and affordable home is a key determinant of health, wellbeing, resilience, and prosperity outcomes for every Cheltenham resident and community. This strategy includes:

- **Placing residents at the centre of decision making**: By using insight to support evidence-based decision making, enabling residents to take ownership of their communities and in helping prioritise sustainable investment into frontline services.

- **Delivering high quality new homes**: By delivering new affordable homes, acquiring homes on the open market, and enabling development and regeneration opportunities.

- **Reinvesting in existing homes and neighbourhoods**: By reaching a net zero carbon target by 2030, reinvesting in existing homes and regenerating the existing stock footprint, and by investing in neighbourhoods to tackle ASB and improve community safety.

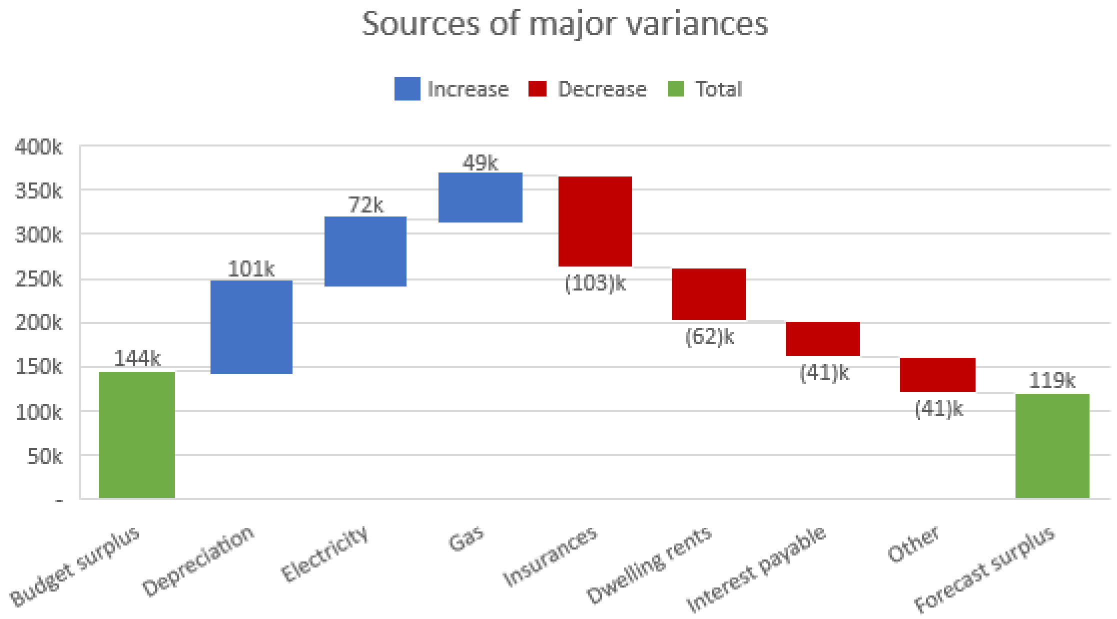
- **Ensuring shared prosperity**: By commissioning services to reduce homelessness, support pathways and community outreach to support the most vulnerable, and with a prevention-based approach to support whole-system outcomes.

- **Delivering value-for-money**: By maximising resources through cost control, operating efficiencies and cross-cutting partnerships that support joint leadership roles, co-location of staff, resource-pooling and the joint commissioning of services.

4.4.3. The activities required in 2024/25 to support the delivery of this strategy are set out in section 5 below.

4.5. Revised Forecast 2023/24

4.5.1. The budget for 2023/24 reflected the increasing cost pressures on the HRA with a budgeted operating surplus of £143,800. The revised forecast shows a negative variance of £25,200 from budget, reducing the operating surplus for the year to £118,600. Significant variations have been identified in budget monitoring reports and are shown below.



4.5.2. Depreciation calculations have been reviewed and updated for estimated component rates from the current round of procurement and changes to the timing of new acquisitions and neighbourhood works.

4.5.3. Recent energy costs have been reviewed with savings identified against what was budgeted. This has been achieved through a new fixed rate electricity contract and the new ground source heat pump system at Cumming Court. These changes are delivering estimated savings of 15% against the budget for 23/24.

4.5.4. The recent insurance renewals have resulted in increasing premiums due to fire related claims and changes to property reinstatement values.

4.5.5. Lower dwelling rents are due to the timing of when acquired properties will be ready to let following void works, in particular the LAHF refugee acquisition programme as completion dates are later than originally estimated.

4.5.6. The temporary borrowing interest rate used in the budget was set at 3.65% however with increases in the Bank of England base rate this is now expected to average at 4.58%.

4.5.7. Other changes include adjustments for the final pay award for 23/24.

4.5.8. The HRA capital programme shows a 7% reduction in forecast spend on existing homes, down by £0.8m to £12.0m on the original budget due to a combination of contractor delays and reduced costs from pre-tender estimates. The main changes are: increased costs of major voids relating to the acquisitions in the year (+£0.2m), contractor delays on one lift replacement (-£0.1m), contractor delays on the warden call replacement system (-£0.6m), and savings from pre tender estimates for works to non-traditional build properties (-£0.3m).

4.5.9. The new build programme is anticipated to reduce by £10.7m to £11.3m due to delays in delivering on land led schemes and progress on developer led s106 schemes. The budget included expected works beginning on 320 Swindon Road and Monkscroft Schools as well as a contingent amount for new s106 schemes which may have arisen in the year if opportunities had progressed in the market during the year.

5. Delivering Our Vision for Housing

5.1. The plans set out in this paper and our drive for continuous service improvement will provide greater opportunity for tenants to shape our activities in our continuing commitment to improve existing homes, supply new homes, invest to make Cheltenham net zero carbon whilst continuing to provide support during the cost-of-living crisis.

5.2. Placing residents at the centre of decision making

5.2.1. We run quarterly phone surveys, targeting to speak to 250 customers each quarter, to find out about service user experiences. These surveys are based on tenant satisfaction measures (TSMs), a standard set of questions, set out by the Regulator for Social Housing. Following these surveys, we contact every customer who is unhappy so we can understand more about 'why' and take action to make things better. This real time feedback shows us where to improve, forms part of our planning for service changes and ensures customer feedback is at the heart of our decision making.

5.2.2. The budget has been set so that the Council is able to maintain high levels of performance and satisfaction in core landlord services including repairs, anti-social behaviour management (ASB), tenancy management, rent arrears management, lettings and resident involvement. The most recent full year benchmarking analysis for these areas shows performance and satisfaction being maintained at quartile 1 (75% of 28 measures) and quartile 2 levels compared to peers.

5.2.3. Two key areas of focus for the sector and where there has been customer led change in our housing service provision during 23/24 relates to complaints and DMC (damp, mould, condensation). Additional resource and revised processes have been put in place to enable us to act more proactively in these areas. This additional capacity includes a dedicated complaints officer and 2 additional operatives in the DMC team.

5.2.4. Both of these areas have also benefitted from deep dives into our data and new ways of reporting on this data to allow service teams to be more responsive to our customers. Further work on data insight is being progressed in 23/24 and 24/25 in a number of areas including in repairs and planned maintenance to support improvements in processes in these areas.

5.2.5. As part of growing other channels for meaningful tenant engagement new members have been recruited to the Tenant Scrutiny and Improvement Panel with recent training delivered by TPAS on how to conduct effective scrutiny. TSIP have most recently completed a review on waste management and cleanliness of communal spaces with the next review in the new year focusing on our approach to tackling damp and mould.

5.3. Delivering High Quality New Homes

5.3.1. The Council is committed to building low carbon homes on land led schemes controlled by the Council and maximising the energy efficiency of homes on developer led schemes through negotiation and improvements to specification during the build period. An example of this during 23/24 will be completing the acquisition of 9 new zero carbon homes through a section 106 deal. These homes include highly efficient air source heat pumps, solar panels providing renewable energy and high levels of insulation; showcasing a great example of what can be achieved for future building programmes.

5.3.2. The Council continues to successfully deliver new affordable homes through its £180m housing investment programme. During 23/24 the forecast spend of £11m will deliver 9 zero carbon homes at Kidnappers Lane site, 5 homes on Shurdington Road, 21 homes under the Government's Local Authority Housing Fund (LAHF) for refugees from Ukraine and Afghanistan and an estimated 16 further individual property acquisitions.

5.3.3. As part of this housing investment programme the Council will have spent approximately £52m (205 completed homes) by the end of 23/24 and is allocating £10.6m for 24/25 and projecting further investment of £71m over the following 3 years. During 23/24 the Council has been successful in bidding for 70 new homes under a s106 agreement for a development in the northwest of Cheltenham.

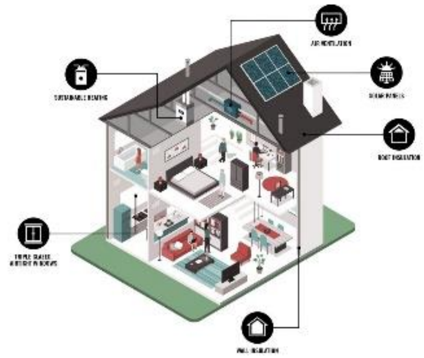
5.3.4. The capital programme in appendix 4 targets the delivery of 390 additional homes over the next 4 years including 110 from s106 schemes, 94 from land led schemes, 100 acquisitions and 86 from the Golden Valley Development. These homes will be for a mix of tenures but with the majority being for social rent in order to maximise the affordability for residents in Cheltenham.

5.3.5. The Council continues to actively pursue new business opportunities with a range of developers and agents with the current pipeline including 690 additional homes over 7 years with 57% of these being for social rent. New business opportunities are monitored to ensure we are well placed to secure the affordable homes on the key sites that align with our collective ambitions to provide high quality, sustainable affordable homes.

5.3.6. These development opportunities not only provide much needed homes for Cheltenham but also are the largest new source of income for the HRA: in the short term in the form of Homes England capital grants and shared ownership receipts and in the long term in the form of new net rental income which will add to the financial strength of the HRA. In the 24/25 budget alone new homes account for £350k of the increase in rental income.

5.4. Reinvesting in Existing Homes and Neighbourhoods

5.4.1. The Council is actively improving existing homes to support the 2030 net zero carbon target, as well as reducing the burden of fuel poverty for residents. Over the last few years the Council has already installed solar PV to 800 homes, delivered a borough wide window and door replacement programme, fitted low energy LED lighting to 290 blocks, upgraded wall, roof and loft insulation all of which has improved the average EPC rating for all existing homes.



5.4.2. Looking forward the Council's strategy includes improving the building fabric, installing low carbon heating systems, generating energy on site through solar PV and then further reducing energy use through smart technologies.

5.4.3. Three successful bids have already been made under the Government Social Housing Decarbonisation Fund (SHDF): £40k Demonstrator Grant for fabric improvements to two pilot homes, £800k Wave 1 grant for fabric improvements to 34 homes and installation of ground source heat pumps (GSHP) to a 25 unit sheltered scheme, and £2.2m Wave 2.1 grant funding for a further 175 homes due for completion in 24/25.

5.4.4. The budget proposals for 24/25 include £3.4m of capital spend for retrofit energy improvements with approximately 30% of this funded by central government grant. The four-year capital programme set out in appendix 4 includes a further £11.1m of investment in sustainability measures for an estimated 430 further homes to be improved.

5.4.5. This investment in existing homes comes at a significant cost to the HRA and is part of a programme ensuring all HRA homes meet at least an EPC C energy performance rating by 2030. In addition to tenants saving on their energy consumption, they will also benefit from improved comfort levels in their home, which in turn will improve their overall health and wellbeing.

5.4.6. The Council is also committed to providing homes which are safe, secure and good quality places to live for our customers. The effectiveness of this commitment is reflected in quartile 1 customer satisfaction ratings, when compared to peer organisations, for the repairs service, time taken to complete repairs and satisfaction that homes are well maintained. The average energy efficiency rating (SAP rating) of Council homes is also quartile 1 compared to peers.

5.4.7. The HRA's asset management plan (AMP) has been updated for the period 2023-2028 and will be presented to full Council in February 2024 for approval. Our ambition is for effective management of customers' homes so they continue to be more than bricks and mortar, providing security, supporting health and wellbeing, and contributing to thriving communities. To achieve this the AMP incorporates five key priorities: knowing our assets, supporting the climate emergency, ensuring safe homes, quality of home and our repairs service, with cross cutting themes of modernisation, governance and embracing technology to enhance person centred, efficient and accessible services.

5.4.8. The draft capital budget proposed for 24/25 includes £15.4m for property improvements and major works. This is an increase of £3m on the budget for 23/24 and includes external and internal investment programmes to help bridge the quality gap between existing and new homes. These programmes of work include statutory compliance requirements, energy performance measures and other improvements in the quality of homes in ways that assist customers and contribute to their quality of life.

5.4.9. A key investment programme commencing in 24/25 is a five-year kitchen renewal programme which will see the replacement of all kitchens originally installed under the Government's Decent Homes Programme. The target is for over 500 renewals in 2024/25 and then averaging 1000 per year in the subsequent three years. To support the successful execution of this programme the proposal is to appoint two contractors which will reduce the risk of insufficient contractor resource or needing to extend the timescale beyond 5 years.

5.4.10. In order to deliver this proposed capital budget additional internal resource is required, both in technical and administrative roles. Whilst these 5 new roles will increase the capital management element of the budget the management cost as a percentage of major works spend will be maintained at 8%.

5.5. Ensuring Shared Prosperity

5.5.1. The struggles associated with financial hardship are evident amongst our communities and therefore we strive to contact all customers pro-actively to understand their circumstances and actively promote our Benefit and Money Advice Service and Training & Employment Service. Referrals are also made to partner organisations such as Citizens Advice and promoting assistance programmes such as CBH's Help2 scheme, energy cost grants, food banks and Job Centre Plus drop-in sessions.

5.5.2. This approach has enabled the team to minimise the number of tenants in arrears and carefully control the total cost of arrears on the HRA. In comparison to peers rent arrears, evictions, void loss, support with money advice and employment opportunities reflects quartile 1 and 2 performance.

5.5.3. During the first six months of the financial year the Benefit and Money Advice Team, which provides dedicated, specialist advice and support, including for energy bills, has already secured £770,000 of additional income for tenants which is significantly ahead of the target of £500,000. Current rent arrears are only 2.24% of rental income and there have been no evictions for rent arrears.

5.5.4. The Training and Employment Service (TES) is a nationally accredited training team focusing on digital inclusion, numeracy, job clubs, skills hubs and support for young people at risk of exclusion from schools under the Thrive programme. During the first 6 months of 23/24 the team has already delivered 98 sessions across different programmes, supported 95 individuals into further training and 36 into employment. The Thrive programme is being run at Pittville School in the current year and in 2 further schools in 24/25.

5.5.5. The CBH community investment team has delivered support across the town within the themes of young people, health and wellbeing, digital and innovation, successful ageing and tenant engagement. Through partnership working the team secured £85k from the County Levelling Up Together fund to deliver a new skills hub in Hester's Way, to add to their successful work through the Moors Kids Club, Inclusion Hub, and Men's Group. The team have developed an intensive partnership approach in St Pauls, reinvigorating the St Pauls hub and engaging the community to create sustainable change in the area.

5.5.6. Other community projects, activities and funding include:

- a large number of successful community events during school holidays and the holiday activity and food programme
- a hub-based service focusing on wellbeing to support older people to access services and social opportunities close to home, supporting independent living and reducing social isolation
- a Housing First pathway to permanently house rough sleepers in tenancies with support
- projects to combat Anti-Social Behaviour
- outcomes for families and young people impacted by Adverse Childhood Experiences
- support for Cheltenham's Heads up campaign to raise awareness of mental health and positive lifestyle choices
- support for Cheltenham' Inspiring Families programme, working with partners to provide community based family support

5.5.7. Funding for these services has been protected within the 2024/25 budget recognising this challenging period for our tenants to support communities to thrive and help improve outcomes for young people and reduce inequality.

5.6. Delivering Value-for-Money

5.6.1. Demonstrating excellent customer services at the right cost is crucial and ensures that the Council is delivering value for money (VFM). Performance, satisfaction and costs are benchmarked against other housing providers in the sector with a target of first and second quartile performance and satisfaction whilst targeting costs at a median sector level. The most recent results show performance, satisfaction and costs are within quartiles 1 and 2 apart from premises cost and housing management cost which are quartile 3.

5.6.2. The recent decision to transition housing services back to the Council from CBH will enable there to be savings in these cost areas without reducing front line services. The transition will also enable the Council to respond to the new regulatory regime which has been enacted through the Social Housing (Regulation) Act (2023) and revised Consumer Standards ensuring there is direct line of sight for the Cabinet on housing services.

5.6.3. The delivery of the Council's corporate priorities is more important than ever, and a single organisation of larger scale will also be better placed to deliver our priorities, leverage opportunities and achieve greater social value. We will continue to look for ways of making services more cost efficient and opportunities for additional income to increase the capacity of the HRA for investment and maintain long term financial viability.

6. 2024/25 HRA Budget Proposals (Appendix 2)

6.1.1. The budget proposals for the HRA Operating Account are set out in Appendix 2. The budget is set in comparison with the revised forecast for 23/24 and the original budget for 23/24.

6.1.2. This shows an increased net operating surplus compared to 23/24 due to the rent increase for 24/25 and the new homes supplied during the year. The net operating surplus is projected to increase in future years as further new homes are added to the HRA housing stock as part of the £180m Housing Investment Plan.

6.1.3. All rents are proposed to increase in line with the Government's Rent Policy of 7.7% in April 2024 following the announcement of the CPI for September 2023 at 6.7%. Social and Affordable rents are proposed to be capped at the Local Housing Allowance (LHA) as in previous years. Following the announcement of an increase in LHA in the Autumn Statement the cap will be calculated once the level of LHA for Cheltenham is confirmed. Shared Ownership homes rent, which is governed under separate shared ownership leases, could be increased by RPI + 0.5% however it is proposed that the increase is limited to 7.7% for 24/25 for the HRA's 8 Shared Ownership homes as the Council believes it is appropriate to maintain a fair and equal rental increase across all HRA homes for 24/25.

6.1.4. Last year there was significant inflationary pressure on service costs and associated charges for tenants and leaseholders. For 24/25 service charges for grounds maintenance work undertaken by Ubico and cleaning charges for the communal areas in blocks of flats are being limited to 5%.

6.1.5. As a result of fixing electricity charges for 2 years it will be possible to reduce communal electricity charges by 15% overall with communal heating charges estimated to increase slightly although a further review will be completed on these charges prior to the final budget being presented in February.

6.1.6. Garage rents for tenants are proposed to be increased by 7.7% from April 2024 in line with the proposed increase in housing rents with a 10.7% proposed increase for privately rented garages.

6.1.7. Expenditure budgets reflect:

- An estimated pay award in 2024/25 of 5% and inflation on the majority of non-staff costs of 5% other than repairs and maintenance where subcontractor costs are expected to increase by 6%.

- An increase in the ALMO management fee of 6% which reflects provision for the higher than budgeted pay award in 23/24 and an adjustment for slightly higher pension contributions than originally budgeted.
- Repairs and maintenance costs include additional resource for electrical safety and DMC works as noted in 5.2.3 above.
- Shared service cost increases at 5% per annum.
- Interest payable on temporary borrowing at 4.3% for 24/25 as well as additional borrowing to fund the HRA capital programme. This is the expenditure line showing the most significant increase year on year.
- Assumption that Homes England funding continues at existing levels and shared ownership costs do not change substantially

6.1.8. Significant changes to the HRA operating account (greater than £50,000) in 2024/25 as compared to the revised forecast for 2023/24 are itemised in the table below.

Budget Heading	Additional Cost (-) / Income (+) £
General and Special Management – increase due to pay award and inflation on non-staff costs	(196,300)
ALMO Management Fee – increase arising primarily from anticipated pay award and non-staff cost inflation; no adjustments have been made at this time for the agreed transition of housing services from CBH to CBC	(359,500)
Repairs & Maintenance – in addition to the pay award and materials and subcontractor cost inflation this includes new resource for electrical safety processes (£48k) and additional capacity (£63k) for a more proactive strategy to mitigate the effects of DMC (damp, mould, condensation) issues on tenants	(426,100)
Interest Payable- additional borrowing to finance the capital programme	(793,500)
Depreciation of Dwellings – reflects increase in stock numbers and inflation on component costs	(165,500)
Rent Income – rent increase (7.7%) and supply of new homes	2,034,800
Other net variations (lower than £50,000)	27,200
Increase in Operating Surplus (compared to 23/24 forecast)	**121,100**

6.2. HRA Capital Programme 2024/25 (appendices 3&4)

6.2.1. The capital programme for 2024/25 continues to show significant investment in both existing homes and the acquisition and development of new homes as noted in section 5.3 and 5.4 above. Total spend is forecast to be £26.1m in 24/25 increasing to £37.3m in 25/26.

Details by programme area are given in appendix 4 which has been expanded to 4 years to ensure programmes of work that span more than one year can be approved by Cabinet and Council.

6.2.2. The proposed funding of these programmes is set out at Appendix 3 and includes a combination of borrowing, SHDF grant, Homes England grant, shared ownership sales, capital receipts and leaseholder contributions. The balance of funding sources may vary depending on the timing of grant payments and prevailing interest rates.

7. Funding and Financial Viability

7.1. As noted above the 30-year financial position of the HRA has improved slightly since last year due to the rent increase and inflation falling from its peak in 2022. This improvement has not returned the HRA to the more robust financial position existing in previous years before the excess inflation and rent cap, therefore there may be a need to identify operating efficiencies whilst ensuring we continue to invest in existing and new homes and the customer focused services which are essential for the support of our communities.

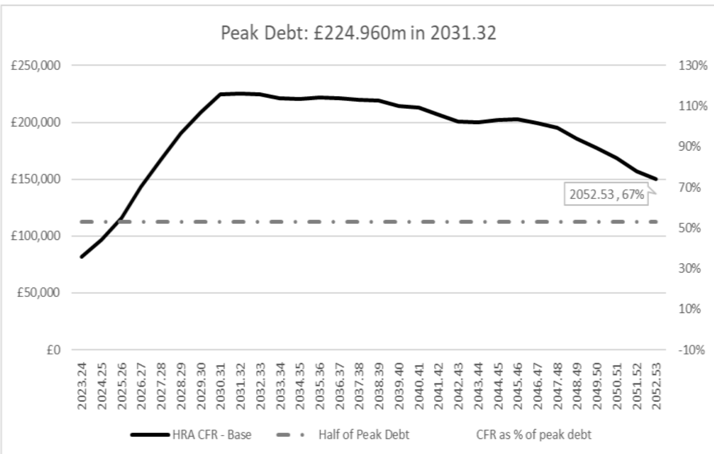
7.2. Long term assumptions, beyond the next three years, include:

- CPI at the Government target rate of 2%
- Rent increases at CPI + 0.5% per annum for 5 years and then CPI thereafter (next review of Government rent policy due in 2024)
- Borrowing rates at 3% per annum over the long term

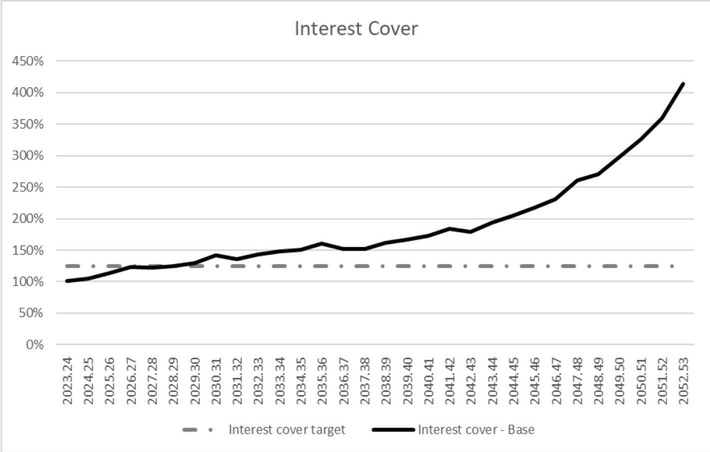
7.3. The following parameters are targeted to ensure financial viability in the longer term:

- the ability to deliver the capital programme on existing homes
- the HRA is able to repay debt over the long term with debt in year 30 (terminal debt) less than half of peak debt
- HRA reserves do not fall below a contingency level
- there is sufficient and growing interest cover

7.4. The current projections show that the second parameter relating to the repayment of debt will be at 67% at the end of the plan period which is an improvement on last year's 71% but above the target position of 50%. It is proposed that this is accepted in order to allow for the continued investment in essential services and new homes as set out in this proposed budget.



7.5. Interest cover has improved compared to last year due to the rent increase and easing of cost inflation. This is modelled to hit the minimum target of 125% in 2026/27 as additional income is generated through new homes being added to the HRA through new build and acquisitions. Careful monitoring is still necessary to ensure that the scale and pace of delivery does not risk long term viability and terminal debt reduces to 50% of peak debt over the medium term.



8. Consultation process

8.1. The Council is proposing to consult on these budget proposals during the period to 31st January 2024. The results from this consultation will be fed back to the Cabinet and considered in the formulation of the final budget proposals.

8.2. As part of the interim consultation process the Cabinet's proposals will be included on the Council's website. All interested parties will be encouraged to respond, and consultation meetings will be held with tenant representatives.

8.3. In preparing the consultation document it may be helpful to provide supplementary information, for instance relating to the main changes in the budget. It is therefore recommended that the Executive Director, Finance and Assets and Cabinet Member for Finance be given delegated authority to approve any supplementary information for consultation.

9. Key risks

9.1. There remains a number of areas of uncertainty and risk within the longer-term projections for the HRA including the level and nature of Government funding for the net zero carbon programme for existing homes, timings for delivery of new homes, inflationary and supply pressures, and Government rent and other policy positions. These will continue to be monitored and modelled as further information becomes available.

9.2. A key deliverable of the 5-year business plan is new build and delivering this on time and within viability parameters will strengthen the HRA going forwards.

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Appendices:

i. Risk Assessment

- ii. HRA Operating Account
- iii. Major Repairs Reserve and HRA Capital Programme (summary)
- iv. HRA 4-year Capital Programme (detail)

Background information:

1. CBC Corporate Plan
2. HRA 5-year Business Plan
3. HRA 30-year Financial Model

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
1.01	Volatility in the external policy environment including Government Policy may impact the economic operating environment and future funding of the HRA	Paul Jones	5	3	15	Reduce the risk	Policy changes are monitored closely and the impacts understood and mitigated where there is a significant impact on the HRA (such as future rent policy). A 30-year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term	CBC finance team	Mar 2025
1.02	If material and labour price increases and resource constraints continue in the medium term this may cause further financial restraints and the need for additional savings in the HRA	Paul Jones	4	3	12	Reduce the risk	The current higher than inflation pay rises in the private sector and constraints in the construction sector will continue to be monitored carefully. Long term supply agreements are in place or will be put in place for new programmes through competitive procurement to reduce	CBC finance team	Mar 2025

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							the risk of labour and material shortages. Sufficient internal resource will be maintained to reduce the impact of subcontractor price volatility. A 30-year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term. The pace and scale of future investment will be managed carefully to protect existing services and support for tenants.		
1.03	If there are insufficient resources to deliver planned maintenance to existing homes or meet additional compliance requirements, then homes may become non decent or there may be an increase in void loss	Paul Jones	4	3	12	Reduce the risk	Robust stock condition data and compliance data is required to inform future capital spend and compliance requirements. Procurement best practice is followed with continuing contract management.	CBH through management agreement	Mar 2025

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							A 30-year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term		
1.04	If the Net Zero Carbon programme is not carefully planned and delivered and not sufficiently funded by Government, there may be insufficient resources to deliver existing maintenance programmes and services	Paul Jones	4	3	12	Reduce the risk	Resources have been set aside to conduct retrofit activities over the next 4 years in the capital programme. This includes procurement of a new term external works contract and the expectation of additional funding bids to central government for the retrofit programme. The target for new build land owned by the HRA is to deliver low carbon homes. Progress in the sector and funding proposals by Government will be carefully monitored. A 30-year financial plan is maintained, updated	CBC/CBH through partnership working	Mar 2025

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							and stress tested regularly to ensure the HRA is financially viable over the long term		
1.05	If the transfer of the Housing Service from CBH to CBC is not successfully managed or savings opportunities are not successfully delivered there could be an impact on resourcing/capacity to deliver essential services and compliance requirements as well as an adverse impact on the financial resilience of the HRA	Paul Jones	4	3	12	Reduce the risk	Consultation and close working will continue with CBH service teams, a programme manager has been appointed to manage the transition, there is ongoing financial monitoring of budgets and the HRA business plan	Paul Jones	Mar 2025
1.06	If changes in benefits, including changes to UC rates, or the cost-of-living crisis have a greater impact on tenants than anticipated and planned for, it may increase the level of arrears for the HRA and impact on vulnerable families	Paul Jones	3	2	6	Reduce the risk	The HRA budget includes specific resources to control rent arrears and support tenants through transition to Universal Credit and support tenants during the cost-of-living crisis. This has been successful in	CBH through management agreement	Mar 2025

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							mitigating the impact so far.		
1.07	If void rent loss is higher than estimated, it will impact on assumed rent income in the HRA	Paul Jones	3	2	6	Reduce the risk	Demand for social housing remains high and is increasing, private rents are increasing unaffordable for many, there remains a significant waiting list and short re-let times. Quality of homes needs to be maintained and changes in void levels monitored.	CBH through management agreement	Mar 2025
1.08	If the demand for reactive repairs increases, there may be insufficient budget to meet demand	Paul Jones	3	2	6	Reduce the risk	The planned maintenance programme for existing homes is delivered each year. A 30-year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term. Major peril to the stock is fire which is covered by appropriate	CBH through management agreement	Mar 2025

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							insurance.		
1.09	If there are insufficient new supply opportunities (land/acquisitions) or delivery on sites such as new affordable homes from the GVD the ambitious targets for net new supply will not be achieved and the HRA will not be strengthened by generating additional future income	Paul Jones	3	2	6	Reduce the risk	The transition of CBH to CBC will strengthen the combined development team. A 30-year financial plan is maintained, updated and stress tested regularly to ensure the HRA is financially viable over the long term	CBC/CBH via Strategic Housing Delivery Group, Council Member Housing Working Group	Mar 2025
1.10	If the capital receipts held from RTB sales under the retention agreement with DLUHC are not used within 5 years of receipt, they are repayable with interest to the Government	Paul Jones	3	1	3	Reduce the risk	The acquisition programme is continuing at a level which is adequate to use receipts before they would be repayable. This position is regularly monitored.	CBC/CBH through partnership working	Mar 2025