Decision maker and date of Leadership Team meeting or (in the case of individual Lead Member decisions) the earliest date the decision will be taken	Leadership Team: 7 February 2024 Full Council: 28 February 2024 Date of decision (i.e., not before): 28 February 2024	THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Forward Plan ref:	KD1004474	
Report title	2024/25 Housing Revenue Account Budget Setting Report and Business Planning	
Reporting officer	Dan Hawthorn – Executive Director of Housing and Social Investment	
Key decision	Yes	
Access to information classification	Public	

1. EXECUTIVE SUMMARY

1.1. The Housing Revenue Account (HRA) budget-setting report provides an overview of the key assumptions and sets out the parameters for the detailed recommendations and final budget proposals.

1.2. The recommendations are set in the context of the current economic operating environment where high inflation, increased cost of borrowing, and the below-inflation cap on rents in 2023/24 have impacted on the funds available to deliver services and the Council's Capital Programme.

1.3. The report presents the draft Housing Revenue Account (HRA) revenue budget for 2024/25 and medium-term financial plan. The draft budget includes proposed increases to rent levels and other charges for tenants and leaseholders.

1.4. The report recommends that, in order to sustain the necessary level of investment in Council homes, rents for 2024/25 should increase in line with the Regulator of Social Housing's Rent Standard i.e., at 1% above the rate of inflation as at September 2023. The report notes that the government has increased welfare payments in line with September CPI, and that 65% of the Council's current tenants are in receipt of Universal Credit or housing benefit payments. However, the report also recognises that the increased cost-of-living and wider inflation continue to have an impact on residents, and therefore also recommends the expansion of the Tenants' Support fund.

1.5. The report also presents the draft HRA Capital Programme 2024-9 which sets out the capital investment plans for the Council over the medium-term.

2. RECOMMENDATIONS

2.1. The Leadership Team recommends Full Council to:

(i) Approve a rent increase of 7.7% effective from Monday 1 April 2024. This equates to an average weekly rent of £151.10 (set out in section 5 of the report).

(ii) Agree to maintain the Tenant Support fund and increase the budget to £0.5 million for 2024/25 as set out in section 5 of this report.

(iii) Approve the HRA revenue budget for 2024/25 as set out in **Appendix A**.

(iv) Approve the 2024/25 Fees & Charges as set out in **Appendix B**.

(v) Approve the five-year Capital Programme (2024/25-2028/29) as detailed in **Appendix C**.

(vi) To consider and approve the updated Medium-Term Financial Plan for the HRA.

(vii) Agree to develop a new Non-Estate Property Disposal Policy and authorise the Executive Director of Housing and Social Investment, following consultation with the Lead Member for Housing Management, Housing Safety & Building New Homes to implement the new policy in-line with the constitution (set out in section 8 of this report).

(viii) Note the key assumptions in the business plan and the inherent risks and uncertainties as set out in sections 9 to 17 of this report.

3. REASONS FOR DECISION

3.1. The Council has a statutory duty to set a balanced Housing Revenue Account (HRA) budget each year, as well as a financially sustainable capital programme.

3.2. The Council's housing stock is in need of intensive investment, and there are financial challenges caused by inflation, increased cost of borrowing and materials, and the Government's below inflation cap on rents in 2023/24.

3.3. The Council recognises the impact of the wider financial landscape including increased cost of living and high inflation on residents and therefore recommends maintaining the Tenants' Support fund and increasing its budget from £0.3 million to £0.5 million.

3.4. The Local Government and Housing Act 1989 Section 76 requires local authorities with a HRA to set a budget for the account, which is based on best assumptions, and that avoids a deficit, and furthermore to keep the HRA under review.

3.5. Local Authority rent setting powers are set out in section 24 of the Housing Act 1989, this provides that:

(i) A local housing authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses.

(ii) The authority shall from time-to-time review rents and make such changes, either of rents generally or of particular rents, as circumstances may require.

4. BACKGROUND

4.1. The Housing Revenue Account (HRA) covers income and expenditure relating to the Council's own housing stock. It is an account that is ring-fenced from the Council's general fund as required by the local government Act 1989 which specifies the items that can be charged and credited to it.

4.2. The Council is obliged to maintain a longer-term business plan for the HRA which shows its revenue and investment plans are sustainable and appropriate, taking full account of the planned capital investment. The Council has a legal duty to ensure the HRA account remains solvent and to review the account throughout the year.

4.3. The HRA faces significant financial challenges, arising from the intensive investment needs of the stock, and from a range of factors in the economic operating environment including higher inflation, the rising cost of borrowing, the cost of materials, and the government's below-inflation 7% cap on social rents in 2023/24. These challenges continue to pose a significant risk to the affordability of the Council's long-term business planning and forecasts assumed when setting the HRA budget.

4.4. The HRA and the services that the Council provides for its Council tenants and leaseholders are more relevant and important than ever with the Social Housing (Regulation) Act 2023 introducing a new regulatory framework, supported by a greater emphasis on residents' engagement. The HRA must ensure its management function is strong and both anticipates and meets the needs of all its residents.

5. REVENUE BUDGETS

Rent Setting proposals for 2024/25

5.1. A key component of setting a balanced HRA Business Plan is the annual rent and charges setting process. When deciding whether, and by how much, to increase dwelling rents, the Council is balancing the essential need for continuing investment in high-quality homes and services for our residents, with the impact that rent increases may have on tenants' household finances.

5.2. The Council's ability to set rents is constrained by the Regulator of Social Housing Rent Standard which is determined by a government direction under Section 197 of the Housing and Regeneration Act 2008. The Council has discretion to set rent levels in line with this standard which caps any increase to the preceding September Consumer Price Inflation (CPI) + an additional 1%. The Council must comply with the rent setting rules as failure to do so may subject the Council to regulatory action.

5.3. Social rents are calculated in accordance with an agreed formula prescribed in the Rent Standard. The formula rent considers such factors as the national average rent, the relative local earnings, the number of bedrooms and the relative property value.

5.4. Under the previous rent restructuring regime, the plan was to gradually move individual rents to their Formula Rent over time, however several Government interventions, prevented many rents from converging with their Formula Rent.

5.5. During the financial years 2016/17 to 2019/20, the Government mandated for all landlords to reduce dwelling rents by 1% per annum. The financial impact of this loss of income was significant and maintaining service levels throughout this period was challenging. The income loss was around £22 million when compared to the assumptions made within the HRA business plan for the same period.

5.6. However, where a property now becomes vacant, local authorities are permitted to set rents for new households in the properties at Formula Rent (subject to not exceeding the national cap for the relative property size). The rent standard recognises that some discretion may be needed to take account of local factors. It allows flexibility to set rents for new tenants at up to 5% above formula rent.

5.7. The government introduced a new policy (after the Welfare Reform Act 2016 ended) effective from April 2020, which allowed Local Authority Landlords and Registered Providers to increase rents by CPI plus 1%. This was modelled over 5 years from April 2020 and was intended to provide stability and certainty regarding planned investment in the current stock, at least in the short to medium term.

5.8. Due to the rapid rise in inflation within the context of the cost-of-living crisis experienced last year, the government consulted on a temporary amendment to the rent standard policy (CPI+1%) and rent increases were capped at 7% for 2023/24, instead of a cap defined by September 2022 CPI of 10.1% plus 1%.

5.9. This report recommends a rent increase of 7.7% for 2024/25. This increase is estimated to result in an additional £3.7 million of income in 2024/25 when compared to the 2023/24 projected outturn. It is estimated that a 1% reduction in the rent increase uplift for 2024/25 (i.e. a 6.7% increase) would reduce the rental income by approximately £0.5 million in the financial year, and around £2.5 million over the five-year MTFP period. This illustrates how increasing the rents by lower than the statutory limit will not only have an impact on income in the current year, but also in each subsequent year.

5.10. Similarly, a rent uplift of 4.9% (November 2023 CPI+1%) would represent around £1.3 million per annum reduction in the availability of funding for investment in the HRA from 2024/25 and circa £6.5 million over the five-year business plan period (this equates to £39 million over 30-years).

5.11. It is important to recognise that the income from housing rents does not just help fund the Housing Revenue Account, it is also required to fund the ongoing capital investment in the housing stock. The capital programme, like the revenue account, faces increasing costs due to inflationary pressures, limited government funding to support investment such as environmental priorities and requirements such as carbon reduction measures to homes. A lower increase would therefore directly reduce the amount of funding available for capital investment in improving homes and estates and would require the Council to reduce its investment plans accordingly.

5.12. In the context of the long-term business planning, a CPI+1% model helps to provide some stability and certainty over planned investment in the stock and service improvement, at least over the medium term. It does not however entirely mitigate other risks which are present in the current economic climate.

HRA Tenants Support Fund

5.13. The Council appreciates that the increases in rents recommended will not be welcomed by our tenants, especially alongside other cost of living pressures and wider inflation. However, the Council faces the same inflationary pressures - especially within the construction and maintenance sectors – which means that without the increases in rents we will not be able to deliver the services and investment needed to meet our longer-term plans to maintain the quality and safety of our residents' homes. The approach recommended here is considered an appropriate balance between these considerations.

5.14. Vulnerable tenants would also be offered protection through the welfare system with increases in welfare announced by the government in the autumn statement as matching September's CPI of 6.7%. Of the Council's current tenants 65% are in receipt of Universal Credit or housing benefit payments.

5.15. In addition, the Council has a duty to support tenants to maintain their tenancy, and in 2023/24 established the Tenants' Support Fund as a one-off budget provision to provide further support to tenants. The Fund's main aim is to support tenants affected by the rent increase and the general costs of living crisis. The Universal Credit (UC) managed migration has already started in Kensington and Chelsea and more tenants will be transferred from legacy benefits to UC in 2024/25. This means more financial assistance may be required to support people who are not used to managing their own housing payments and who will find it difficult to budget or forget to claim UC housing cost.

5.16. The key principles underpinning the Fund are:

- Prioritising the most vulnerable.
- Targeting those on Pension credits, Housing Benefits and Universal Credit.
- Simplifying the application process for those on income-based benefits, making it easier and quicker to receive help.
- Ensuring the support is flexible – offering cash to bank accounts, shopping vouchers, credit rent accounts, payments of heating bills.
- Targeting particular groups via SMS messages to publicise its availability and maximise take up.

5.17. Recognising the continuing impact that rent increases in the current cost-of -living crisis may have on HRA tenants, it is recommended that the Council continues to maintain the Tenant Support fund and increases the budget from £0.3 million to £0.5 million for 2024/25.

5.18. The Council will continue to promote the Fund to all residents through its Housing Matters publication but will also do direct targeted work with the most vulnerable households, including by assessing all introductory tenants, care leavers, the elderly and young families, who are often amongst the most vulnerable.

Proposed Approach

5.19. To reduce the level of borrowing, it is recommended that the following approach is adopted:

- The maximum rent increase is applied which would result in increases of 7.7%, and

- Where a property is re-let, the new rent would be set at the maximum level possible using the rent flexibilities within the rent standard (i.e., 5% above the formula rent, subject to not exceeding the national property caps).

5.20. The average weekly rent in 2024/25 will be £151.10 which is an increase of around £10.78 per week. Table 1 shows the proposed average weekly rent levels for homes of each size, after applying the recommended increase of 7.7%.

Table 1: Average rents by bedroom size

Bedroom size	**Current average weekly rents 2023/24 £**	**Proposed average weekly rents 2024/25 (7.7%) £**	**Proposed average rent increase 2024/25 £**
Studio	107.08	115.32	8.24
1	125.88	135.57	9.69
2	145.48	156.68	11.20
3	162.41	174.89	12.48
4	184.82	198.96	14.13
5	203.78	219.13	15.35
OVERALL AVERAGE	**140.31**	**151.10**	**10.78**

Other Income and Charges

5.21. The Housing Management team will be consulting on several proposals relating to its parking services including its charging policy in 2024. Some initial proposals have already been shared with the Tenants Consultative Committee (TCC). However, any changes to the charging policy will be subject to consultation with residents and will not therefore be implemented from April 2024. The schedule of charges from April 2024 will be based on current charges, with an inflationary increase.

5.22. It is proposed that in 2024/25 charges for garages and other parking facilities are increased by 7.7%. This level of increase is consistent with the level of increases being applied for all lettings. Where parking facilities fall within a Traffic Management Order, the charges for these must be approved by the Lead Member for Communities & Community Safety. The proposed charges from April 2024 are set out in **Appendix B**.

5.23. Tenant service charges are not affected by the rent setting policy and should be set with the intention of recovering the full cost of providing the service. Service charges will increase with inflationary pressures and changes in usage. The average weekly charge for 2023/24 is around £13.83.

5.24. Service charges are covered by housing benefit and Universal Credit, so tenants in receipt of these benefits will have these costs covered.

5.25. Leasehold service charges are required to reflect the actual cost of the services incurred. This means service charges for leaseholders are in the main based on the average expenditure over the last three years with the agreed inflationary increase. In line with Service Charge legislation, leaseholder accounts will be reconciled with the actual costs and leaseholders will be issued their actuals statement by September 2024, which will include a deficit or surplus depending on costs incurred within the financial year for 2022/2023. Delegation will be sought to issue the Actual statements by September 2024.

5.26. The HRA receives interest on its balances. The level of interest anticipated in 2024/25 is based on rates of 2.63% of HRA available balances.

5.27. Whilst the Travellers site sits outside the HRA, it is still necessary to set the annual rent for these plots. It is proposed that a 7.7% rental increase be applied for 2024/25, in line with the proposed social rent increase.

Other Revenue Budgets 2024/25

5.28. Pay Inflation.

Staffing budget for 2023/24 is circa £33.6 million. Future pay award is unknown, however the Council has assumed pay award of 4% for 2024/25 across the HRA and general fund budgets.

5.29. Staff efficiencies.

Housing Management services in-line with the wider Council will apply a 2% vacancy factor in the 2024/25 budgets equating to around £0.5 million savings.

5.30. Running Cost Inflation

Inflation affects almost all areas of the HRA running costs and is largely unavoidable. Contracts are reviewed as required to ensure that best value is being obtained, but the HRA is subject to wider market forces over which it has little influence.

Management costs mainly comprise the costs of employing staff and the associated accommodation and office expenses, including provision for Lancaster West. The draft budget for 2024/25 includes provision for the pay award (yet to be agreed) offset by reduction in one-off budget in 2023/24 for the move of staff to Pembroke Road, and Dilapidations for the former office site at the Kensal Road Hub.

The repairs and maintenance draft budget of £18.8 million represents the costs of responsive repairs and cyclical maintenance programs.

5.31. Capital Financing Charges

The overall current level of debt is £216 million which will increase as additional borrowing is required to finance the future capital programme. This debt is funded through a combination of loans from the Public Works Loan Board (PWLB) and use of the Council's cash reserves within the General Fund, referred to as internal borrowing.

The HRA incurs interest charges on the outstanding borrowing at the prevailing short-term interest rate for the Council. For every £1 million of additional borrowing from 2024/25 onwards, there would be an increase in interest payable of around £40,000 per year.

The level of capital financing charges reflects the assumed levels of future borrowing (an additional £49.8 million in 2024/25), some old debts maturing and being refinanced at a much lower cost and the level of debt funded through General Fund cash surplus.

5.32. Depreciation

Depreciation provision is reducing to £3.5 million and is adjusted based on the value of the HRA assets. This does not represent movements in cash but is a transfer in the HRA from revenue to the Major Repairs Reserves to facilitate the financing of the capital programme.

Electricity, Heating and Hot Water

5.33. This budget funds the energy costs relating to the 'common parts' within buildings and the provision of communal heating and hot water systems. The energy is purchased through a consortium which buys energy on the wholesale markets and the costs are dependent upon both usage and price. The 2024/25 budget is based on estimates provided by the consortium, clearly actual costs could fluctuate upwards or downwards depending upon usage.

5.34. Approximately 2,260 tenants and 810 homeowners are supplied heating and hot water through the Council scheme, with charges for this service being based on the underlying variable cost incurred to generate the heat.

5.35. Insurance costs

The budget provision for insurance costs in 2024/25 has increased by 10%, although it should be noted that the actual insurance premiums have not yet been finalised.

5.36. Surveys

The budget for 2024/25 includes provision to commission an external stock condition survey being procured in 2023/24 to begin in 2024 and run for 2 years.

5.37. Provision for Bad Debts

The ongoing impact of the rising cost of living have increased the risk of the under-recovery of rents, which could lead to a rise in bad debts. The assumption in the model is for a 1.5% increase in the provision for bad debts based on current performance.

6. Proposed Revenue Budget 2024/25

6.1. The Council has a duty to develop a balanced HRA budget, for the next financial year the proposed budget is summarised in table 2 below.

Table 2: Proposed 2024/25 HRA Budget

Description	2023/24 Budget £'000	2023/24 Forecast Outturn £'000	2024/25 Draft Budget £'000
Total Gross Expenditure Budget	70,215	68,229	74,637
Total Income Budget	(73,252)	(73,421)	(77,798)
Net Budget Surplus (-)/Deficit	**(3,037)**	**(5,192)**	**(3,161)**

6.2. The financial modelling assumes that surpluses above the HRA minimum working balance of £5 million, will be used to directly fund capital expenditure. In the draft budgets for 2024/25 £3.2 million surplus as shown in table 2 above will be used to finance the capital programme.

6.3. Further details are set out in **Appendix A**.

7. CAPITAL EXPENDITURE (Draft 5-Years)

7.1. The Capital Programme is spent on providing or improving assets, which include land, buildings, and equipment, and will be used in providing services for more than one financial year. The programme is funded through a combination of capital grants, capital receipts, reserves, contribution from revenue and borrowing.

7.2. In reviewing the overall HRA financial position, the Capital Programme was amended to ensure that any revenue implications from capital decisions were considered in building the revenue budget.

7.3. The HRA MTFP seeks to maximising the use of other available resources and use borrowing as last resort, while maintaining a working balance of £5 million. The MTFP capital programme funding assumes a mix of capital receipts, grant funding, revenue contribution and prudential borrowing.

7.4. Leaseholders are required to contribute towards the cost of maintaining the structure of the building and common areas under the terms of their lease. In line with Section 20 of the Landlord and Tenant Act 1985 landlords are required to consult with leaseholders, where the landlord intends to carry out “Major Works”.

7.5. The delivery of these works should result in some savings in service charges, through lower revenue maintenance requirements and lower heating bills. It is difficult to predict the level of recharges to leaseholders; however, a working assumption is that over the five-year period they are likely to be in the region of £59.2 million.

7.6. The total proposed HRA Capital Programme budget for 2024/25 – 2028/29 is at £461 million as shown in table 3.

Table 3: HRA 5-year Capital Programme

Descriptions	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Housing Revenue Account - Main Programme	51,868	64,384	63,117	63,960	43,001	286,330
Carbon Net Zero	12,091	12,349	11,790	20,000	20,000	76,230
Lancaster West Estate	33,499	38,408	21,281	2,578	1,628	97,394
ICT and Other Capital	202	207	212	0	0	621
Total Capital Expenditure	**97,660**	**115,348**	**96,400**	**86,538**	**64,629**	**460,575**
Capital Financing						
Capital Receipts	12,325	16,100	19,875	21,385	21,385	91,070
Capital Grants	16,840	17,987	2,948	5,000	5,000	47,775

Major Repair Reserve	3,463	3,463	3,463	3,463	3,463	17,315
Revenue Contribution	3,159	3,186	2,290	1,675	1,410	11,720
Leaseholder Contributions (Major Works)	12,062	14,502	13,007	12,828	6,801	59,200
Borrowings	49,811	60,110	54,817	42,187	26,570	233,495
Total Financing	**97,660**	**115,348**	**96,400**	**86,538**	**64,629**	**460,575**

7.7. Further details on the investment programme are set out in **Appendix C**.

8. Financial Planning and Resources Available

8.1. The Council's policy is to retain a working balance on the HRA of £5 million. The financial modelling assumes that surpluses above this level will be used to directly fund capital expenditure. These contributions are in addition to the annual depreciation provisions (MRR), which are being set aside for capital works.

8.2. Whilst the HRA has a minimum balance set for unforeseen short-term impacts, it is clear the financial challenges faced by RBKC Housing Revenue Account (HRA) from the economic operating environment, regulatory changes and other factors continues to be a significant risk to the affordability of the Council's 30-year business plan and forecast assumed when setting the HRA budget.

8.3. Modelling carried out previously indicated that the Authority had insufficient resources to fund the anticipated capital work investment needed over the 30-year period. Additional resources available to the HRA are primarily through borrowing, which incurs additional interest payments on the associated debt, which has an impact on the overall balances available in the business plan.

Disposal of Non-Estate Properties

8.4. The Council has explored the option to dispose of vacant non-estate properties and purchase another property at a lower value, to increase the resources available to the HRA from additional capital receipts generated and reduce the need for borrowing.

8.5. The net receipts arising, once properties are sold, will be used to either repay debt or finance other housing related capital expenditure within the HRA. The funding of the 5-year capital programme includes assumptions for the disposal of vacant non-estate properties which represents a risk to the affordability of the 5-year plan if not delivered.

8.6. These are properties that are not on existing estates and are more bespoke to maintain, which adds to the overall management costs. There is therefore a valid argument to rationalise current property portfolio to concentrate on estates, where consideration of an outright sale is the most appropriate course of action.

8.7. The Council already has a policy allowing for the disposal of properties which are uneconomical to repair, as part of its Housing Asset Management Strategy. The disposal of vacant non-estate properties would be a new policy, if approved, which goes beyond the current Asset Management Strategy.

8.8. A case-by-case approach will be taken, if the disposal of non-estate properties policy is approved, where the disposal of the property would make more financial or operational sense than retaining and investing in it.

9. HRA BUSINESS PLAN

9.1. The Housing Revenue Account (HRA) business plan provides long-term financial forecasts resulting from the implications of the Council’s spending, investment, and rent-setting decisions, based on the authority’s current income, assumptions on how costs and income might change in the future to illustrate what the authority can reasonably expect to happen, using the best available information.

9.2. Initial long-term business modelling assumptions indicates that resources are extremely tight for the foreseeable future, with little scope to mitigate the funding challenges faced by the Council to finance the HRA capital programme requirements and additional financial risk such as inflation and interest rates at the end of the business planning period.

9.3. This report outlines the current position in respect of the HRA Medium Term Financial Plan, which will be further developed as part of the strategic and resource planning process for 2025/26 onwards. The overall aim of which is to provide sufficient flexibility to deal with the risks faced by the HRA over the medium-term period.

9.4. The HRA Business Plan was last reviewed and updated December 2022 and our intention was to undertake a fundamental review during 2023/24, with the aim of having an affordable 30-year business model for 2024/25 financial year.

9.5. While there has been some settling of the wider economic climate, the ongoing war in Ukraine and associated uncertainty over inflation and acknowledging the increased regulatory and compliance requirements, means that the Council is unable to make accurate longer-term financial forecasts at this time.

9.6. RBKC takes a long-term view of the management of its housing stock and plan over a thirty-year period. This enables the development of complex strategies to achieve the long-term goals and objectives.

9.7. The Council intends to undertake a fundamental review of the HRA during 2024, with the aim of delivering an updated 30-year HRA Business Plan commencing in April 2025. Therefore, an interim Business Plan has been produced to cover the period 2024-29.

9.8. This will facilitate the continued delivery of revenue and capital housing services, and allow planning over the medium term, whilst the longer-term plan is being developed.

The HRA Business Plan Environment

9.9. The HRA Business Plan is a live document that sets out how the Council's housing services will be delivered and accounted for, and as such it exists in an uncertain and evolving environment.

9.10. The period from 2016 has seen the UK face many challenges as it strives to cope with, on-going issues from Covid pandemic, the tragic fire at Grenfell Tower, and the transition to Carbon Net Zero.

9.11. The following section describes some of the current major factors that are influencing RBKC HRA Business Plan.

9.12. In 2018, when the Housing Management service was transferred from the Tenant Management Organisation (TMO) to the Council there was around £70 million of backlog work identified. The department conducted a stock condition survey in 2019 and the level of works identified was far higher, at circa £350 million.

9.13. This was for a multitude of works such as new windows, roofs, structural, doors, lifts, electrical work, mechanical and electrical services, boiler plant and external redecoration. In addition, works of over £20 million relating to fire safety and approximately £100 million for zero carbon was also included in the capital programme requirement.

9.14. The cost assumptions post 2020 have meant that because of building works inflation this increased substantially to £620 million over 6 years. This increase in costs highlighted a funding gap of around £400 million and it was estimated that the HRA business plan could only afford additional borrowing of £200 million.

9.15. In addition, over the past few years, regulatory and compliance requirements have increased. While these tightening standards changes is broadly welcome in terms of clarity, consistency, and improved experience for residents, these new requirements will increase our costs, and, in many cases, we will not have the option to pass these onto tenants. Recent legislation in Fire Safety and Damp & Mould has led to greater investment in a range of components and different working practices.

9.16. The cost of works associated with compliance has increased significantly over the past three years. For example, landlords are investing significantly in building related works such as fire safety improvement works, fire doors and compliance with the new Building Safety Act 2022 requirements.

9.17. **Landlord Compliance:** The current operating model is well-established to ensure the Council keep tenants safe. There are six main compliance areas (Gas, Electric, Water, Asbestos, Fire Safety and Lifts) which require a substantial resource to ensure we are effectively compliant but in the last year significant resources have also been needed to ensure the Council's commitment to effectively managing Damp & Mould. Housing is increasingly scrutinised and reputational damage as well as harm is significant if the Council fails to manage its compliance responsibilities. The Council is ultimately responsible.

9.18. **Responding to increased stock quality standards:** Changes to the Government's Decent Home Standard are being proposed which we suspect will include higher thermal efficiency standards which may not be fully supported by additional external grant funding. This is likely to place an additional burden on HRA resources available for elemental investment in homes.

9.19. **Leasehold Reform Bill 2023** – The government have been discussing changes to leasehold law since 2017, and the most recent milestone in this journey was the King's Speech on 7 November 2023 where they announced a new Leasehold and Freehold Reform Bill. The government promises that the bill will reform the housing market making it cheaper and easier for leaseholders to purchase their freehold and tackling the exploitation of millions of homeowners through punitive service charges.

9.20. The government announced they will consult on five proposals to decide the best way forward to benefit leaseholders. These are:

- Setting ground rent at peppercorn.
- Putting in place a maximum financial value ground rents could never exceed.
- Capping ground rents at a percentage of the property value.
- Limiting ground rent in existing leases to the original amount when the lease was granted; and
- Freezing ground rents at current levels.

9.21. It is difficult to quantify the budgetary impact of the Leasehold reform Bill on the Council's business planning at this stage, however, there is potential for loss of ground rent on renewal or capping of existing leases. There is also the possibility the HRA could see a reduction in capital receipts on leaseholder extensions due to the proposal to amend or remove the Marriage Value.

9.22. **Social Housing Regulation Act**: This Act was passed through parliament July 2023 with its core objectives being – to facilitate a new, proactive approach to customer regulation regime, refine the existing economic regime and strengthen the regulatory powers to enforce customer and economic regulation. The Act includes Awaab's Law placing additional requirements in relation to resolving damp & mould on the landlord and requiring greater professionalisation of the service. The regulator has set out for consultation the consumer standards (62 in total) every social landlord will need to comply with. Whilst a number of these are linked to business as usual there are standards that will place new financial burden on the Council such as getting behind every front door in a short space of time.

9.23. Council landlords are applying the new Tenant Satisfaction Measures and reporting these through Key Performance Indicators. The Act will require several changes to home safety, tenant satisfaction measures, complaints handling, a new inspection regime for social landlords and a strengthened role for the Regulator of Social Housing. The Act provides additional impetuous for the two operating models to share best practice and learn from one another.

Economic Context

9.24. The Autumn Statement was announced by the Chancellor on 22 November 2023. The statement set out the Government's focus on its three key economic priorities of reducing inflation, economic growth and reducing debt for both 2024/25 and over the medium term. The Government also announced several housing and planning measures aimed at facilitating further house building by streamlining planning processes.

9.25. There were no references to major changes to departmental spending limits despite the increases in pressure being experienced in the Housing Sector. These pressures that include construction industry inflation, general shortfall in affordable housing, the impact of the war in Ukraine & the consequent high energy and food prices and the continual rise in Homelessness are all contributing towards putting increasing strain on HRA finances.

10. Housing Strategy

10.1. The Housing Strategy is a cross-Council strategy which involves all Council departments, not just Housing services. It sets out a vision for Housing in Kensington and Chelsea and provides a framework for the development of Housing policies, plans and new initiatives across the Council.

10.2. The Council will shortly consult on an updated strategy. The existing strategy sets out six key priorities:

- Supporting Grenfell survivors and bereaved
- Leading the way on health and safety
- Increasing the supply of genuinely affordable housing
- Delivering resident -centred services
- Improving the quality and environment sustainability of housing
- Supporting vulnerable residents and tackling and preventing homelessness

10.3. The Council's Housing Management service manages the homes which the Council owns, and which are occupied by council tenants and leaseholders. The service is comprised of four teams that focus upon the various areas of service delivery:

- Resident Services – responsible for the management of the housing landlord functions, from initial sign up, throughout the period of tenancy to the termination of tenancy.

- Property Services - responsible for the repairs, cyclical maintenance and improvements of our homes and estates. This includes dealing with our response to the Building Safety Act and other compliance related regulations.

- Lancaster West Neighbourhood Team and Grenfell Housing Services – provides landlord and wider community services to the Lancaster West Estate and for the bereaved and survivors living within the borough and beyond.

- Business Improvement – responsible for ensuring we are equipped to meet new challenges of regulation and legislation and overseeing the development process.

11. Asset Management Strategy

11.1. The Asset Management Strategy provides an overarching framework to make decisions on retaining, investing in, maintaining as well as prioritising our homes to understand how they perform against a variety of metrics.

11.2. The Strategy is designed to ensure that our housing meets the needs of our communities, delivers the standards customers expect, now and in the future, and contributes to the overall financial performance of the Council.

11.3. The Strategy is underpinned by a suite of programmes and strategies some of which are still in development, including the Repairs Policy, Investment Standard, Void Standard, Carbon Zero Programme, 7-year delivery plan and options appraisal methodology.

11.4. The council's new investment standard starts with compliance with the Homes (Fitness for Human Habitation) Act 2018 and maintaining the Decent Homes Standard.

11.5. RBKC has committed to a standard for all its homes; they will all:

- Be safe – homes must comply with statutory Health and Safety requirements.

- Be in a good state of repair – components and fittings will be repaired in accordance with RBKC's repairs policy.

- Be sufficiently warm and dry – each home will receive adequate heating and hot water; homes will be kept wind and weather tight and free from water ingress.

- Be accessible – homes will be accessible for all those who live there.

- Have well-functioning facilities – kitchens and bathrooms will be well functioning.

12. Ambition to Deliver Carbon-Neutrality

12.1. The Council has set a target of being carbon neutral for its buildings and operations by 2030 (with a corresponding target for the wider borough by 2040). The Council accounts for 1.8% of the borough's total emissions, with its housing stock being the largest contributor to Council emissions at approximately 57%. Therefore, tackling the carbon emissions from Council homes is one of the single most important tasks in meeting the 2030 ambition.

12.2. The Council is proposing to make a significant investment over the next three years on works to the fabric of our buildings which will include insulation of our roofs, windows, and walls. We are also committed to upgrading our communal heating and hot water systems. Where communal systems are to be replaced, rather than replacing like for like, the Council is committed to conducting a feasibility exercise and where advisable, installing a low carbon or hybrid technology system that in turn will increase system efficiency and reduce energy usage and bills.

12.3. Where communal lighting is renewed, there is a commitment to use more energy efficient forms of lighting and controls, which should in turn, result in reduced energy bills.

12.4. The Council is determined to work to reduce fuel poverty for its residents and to ensure that all planned stock investment work reflects this ambition as much as possible, within existing physical, technical, and financial constraints.

12.5. The carbon neutral strategy and action plan has been developed and tackled on ten major tasks:

- To upgrade twenty-seven communal heating plants to more energy-efficient and low carbon or hybrid alternatives, where financially feasible to do so.
- Building fabric improvements to reduce the overall heat and energy demand for all homes.
- To build in power system upgrades into current cyclical works
- To upgrade communal LED lights and sensor controls
- To develop a plan for ventilation systems to improve health and air quality and address overheating.
- To explore opportunities to generate or procure renewable energy.
- To work out a communication programme with resident liaison officers on behaviour change and carbon awareness.
- To work out an energy plan to help tackle fuel poverty.

12.6. The Notting Dale Heat Network will deliver zero-carbon heating and hot water to around 800 homes in 2025/26 and can potentially expand to provide the same for hundreds more homes in Notting Dale and beyond.

12.7. Housing management has been successful in securing grant funding specifically for carbon-neutrality and will continue to look to secure this where it supplements our existing plans and ambitions.

13. Governance and Delivery

13.1. The HRA business plan is a living document, which articulates the short, medium, and long-term strategies for the management, maintenance, improvement, and addition to the Council's housing stock.

13.2. Officers from both housing and finance undertake an annual review of the financial model to ensure it reflects changes to the capital investment programme, or the impact of external factors and any changes approved by the Council's Leadership Team on an annual basis. Once approved, it is the responsibility of the officers in the Housing Management Service and Finance Department to monitor and deliver the plan.

13.3. To ensure transparency the Tenants Consultative Committee (TCC) will receive strategic updates on the financial position of the Housing Management Service against its target. This will also be presented to elected members on the Council's Housing and Communities Select Committee.

13.4. Each year we will use the annual report to publish our top line figures from the HRA business plan. This will help to keep our tenants informed and offer information around value for money. This business plan is supported by a financial model that uses the latest budgetary information to outline the expenditure required for all the key services and priorities of the Housing landlord functions.

13.5. Any fundamental changes or circumstances that will see expenditure increase above those provided, or income fall below expectations then the plan will be revisited with support from the stakeholders. Swift action allows us to remedy any shortfalls and assess the medium and longer-term impact to the plan. This flexibility is particularly important as it allows us to consider and react to the numerous changes including government policies.

14. Delivery of New Homes

14.1. The New Homes Delivery Programme (NHDP) aims to deliver 600 new homes in the borough, including a minimum of 300 at social rent. The Capital Programme includes provision of £250 million, of which around £84 million is expected to have been spent by the end of March 2024 and a further £56 million is included in the capital programme to be spent over the next two years. There is further provision of £110 million in the capital pipeline to be invested in new homes and brought into the capital programme as required.

14.2. To deliver the greatest possible number of homes at social rent the Council is delivering intermediate rented homes (targeted at key workers) and market rent homes, and most developments also have community facilities incorporated in them (dependent on the size of the development).

14.3. The new homes are built within the Council's General Fund on sites owned by the Council. The social rented properties, following completion, will be appropriated on a cost neutral basis to the Housing Revenue Account (HRA) for letting.

15. Stock Investment

15.1. The 30-year capital forecasts are based on the status of the Asset Management database, which includes significant provision for backlog expenditure which has been allocated over the next 5 years. Work is ongoing to ensure the accuracy of the database and will be backed up by commissioning an external stock condition survey which is being procured this budget year to begin in 2024/25 and run for 2 years.

15.2. The stock condition data, along with lifecycle costing, will be analysed to identify the level of investment required to deal with any backlog repairs, planned maintenance and to ensure the authority continues to achieve and maintain the decent homes standard.

15.3. The table below summarises the level of capital expenditure included in the medium-term financial modelling, resources permitting. This is in advance of the scheduled refreshed stock condition data mention in 9.1 above.

Table 4: Capital Spending Assumptions

2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
97,660	115,348	96,400	86,538	64,629	460,575

16. Business Plan - Key Risks and Challenges

16.1. The business plan is based on a set of key assumptions, and there will always be an element of risk of significant changes in cashflow projections in the revenue and capital accounts, if any of the assumptions fail to materialise. The main variables that could affect the long-term viability of the business plan are rent levels and long-term major works and repairs.

16.2. We have seen the impact of the 4-year rent freeze as well as the change to the Council's power to increasing rents annually up to a maximum of CPI plus 1% with an introduced rent rise limitation of 7% this financial year, and after April 2025, the implications of future Government regulated rent policy remain uncertain.

16.3. As the Council adds more stock to its portfolio and complexities of new additional requirements to building standards are increasing, such as fire safety works, damp & mould and climate change, the cost of major works is rising. There is insufficient government subsidy available to address these changes now. The Asset Management Strategy and investment plans must be approached cautiously and allow for flexibility to scale back on schemes where required.

16.4. The HRA currently has an agreed capital programme that has been recast for the draft budget to incorporate the indicative work to update the asset management plan. A comprehensive stock condition survey is being procured which will better inform the delivery plan, future investment requirements in net zero and stock improvement, and the funding required to finance the programme including level of borrowing affordable to the HRA. It is expected that the stock condition survey will inform a further recast of the capital programme at various stages of the delivery of this work next year.

16.5. Inflation is running at elevated levels that have not been seen since the 1980's. Besides rising energy costs, other goods are also experiencing increases in prices, due to factors such as labour shortages, pay rises, logistics issues and general trend to increase prices and restore profit margins where previously slumps in demand had suppressed price levels.

16.6. In September 2022 CPI stood at 10.1% against a Bank of England target of 2%. The September inflation figures are important as they are used for the following years uplift on formula rent levels, 2023/24 being an exception with a 7% ceiling. The gap between inflation on rent levels and inflation on costs is a significant risk to the long-term business plan. Inflation rates assumed in the current business plan is informed by projections from the Office for Budget Responsibility (OBR).

16.7. Borrowing and interest rates – The HRA is exposed to interest rate fluctuations, which can have a significant impact on revenue budgets and the overall business plan. The business plan does not have a repayment of debt instead an assumption of refinancing of loans as they become due.

16.8. In the recent Autumn Statement, the Chancellor announced an extension to the reduced Public Works Loan Board (PWLB) rate for social housing until June 2025. This enables the Council to continue to borrow at a 40-basis point (0.40%) discount compared to the General Fund.

16.9. The HRA currently has loans of £216 million, of which £112 million are through internal borrowing. Based on current forecasts, new loans totalling £43.9 million and £49.8 million are expected to be taken in the current and next financial years for 2023/24 and 2024/25. However, the timing of when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing PWLB rates.

16.10. The interest payable for 2023/24 and 2024/25 is estimated to be around £7 million and £10.8 million, respectively. Currently interest rates have continued to stay higher than the typically low levels seen in the past decade. The draft budget for next year assumes a borrowing rate of 4.5%, with a long-term interest rate of 4% assumed for new borrowings from 2025/26 onwards included in the business plan.

16.11. Further changes in national housing policies and any changes proposed in future Government papers can have an adverse impact on the HRA and could require additional resources to address any unexpected changes.

17. SUMMARY OF KEY ASSUMPTIONS IN THE HRA BUSINESS PLAN

17.1. The HRA business plan provides long-term financial forecasts resulting from the implications of the Council's spending, investment, and rent-setting decisions, based on the authority's current income, expenditure, and investment expectations.

17.2. Regular review of the assumptions is important to help the Council to make early decisions that help keep the HRA in balance, whilst also delivering substantial levels of investment in Council housing.

17.3. A summary of the key assumptions that underpin the business plan are presented below.

Table 5: Summary of Key Assumptions

Items	Assumptions
Dwelling rent increases	Average rent is currently set at £151.10 per week. Rent is adjusted as per government policy. Assumed CPI only from 2025/26 and beyond. New tenancies re-let at (social) formula rent.
Service Charges	Assumed uplift is in line with anticipated cost increases at CPI
Major Repairs Reserve Balance	Nil- to be fully used each year to fund capital works
Voids	Rent loss through voids is estimated at 1.7% of rent
Bad Debts	Assumed on average 1.5% of gross rent
Interest Rates	On existing borrowing, the loan interest is fixed with levels between 2.3% and 9.7% depending on the duration. New borrowing which is assumed in the plan is modelled at 4.5% in 24/25 and 4% thereafter.
Minimum working balance	£5 million throughout the plan.
Efficiency Savings	Assumed that at the end of the 6-year period of significant capital investment the annual revenue maintenance costs would reduce by £3 million with less need for revenue repairs

18. HUMAN RESOURCES AND EQUALITIES IMPLICATIONS

18.1. In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Act replaced three previous equality legislations – the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A).

18.2. The Council has a statutory obligation to comply with the requirements of the Act, demonstrating that as part of the decision-making process, due regard has been given to the needs described in the legislation. These duties are non-delegable and must be considered by Council when setting the budget in January 2024.

18.3. To inform the decisions about the HRA 2024/25 budget officers have undertaken an Equality Impact Assessment (EqIA), which will be further developed as proposals are agreed and implemented.

18.4. A completed Equality Impact Assessment is attached with this report in **Appendix D** for increasing the rent charged by 7.7%, including the mitigations that will be implemented to lessen the impact wherever possible.

19. LEGAL IMPLICATIONS

19.1. The Local Government and Housing Act 1989 (the "1989 Act") sets out legal requirements in relation to housing finance, in particular a duty to maintain a Housing Revenue Account ("HRA"). The 1989 Act provisions also include a duty to budget to prevent a debit balance on the HRA and to implement and review the budget.

19.2. The Housing Act 1985 (the "1985 Act") gives the council power to "make such reasonable charges as [it] may determine for the tenancy or occupation of [its] houses". The council is additionally required by the 1985 Act to review rents from time to time. The council must set rents in accordance with the Rent Standard and the Rent Policy Statement. The Council must act reasonably in relation to rent setting, and the decision maker should therefore be satisfied that the increase is reasonable and justified. The Council must comply with the Regulator of Social Housing January 2024 guidance "Limit on annual rent increases 2024-25" which is relevant from April 2024, particularly at paragraph 3 where the rent caps are set out.

19.3. The council is required by the 1985 Act to notify tenants of variations of rent and other charges. If approved, the council will need to serve a notice of variation, at least 28 days before the variation takes effect.

19.4. The Council has a legal duty to set a balance budget each year, bearing in mind its fiduciary duties to the taxpayer, and the HRA is not allowed to go into deficit. In exercising these duties, the Council must comply with various legislation and administrative duties.

20. FINANCIAL, PROPERTY AND ANY OTHER RESOURCES IMPLICATIONS

20.1. The financial implications are contained within the body of the report.

DOUG GOLDRING
DIRECTOR OF HOUSING MANAGEMENT

Local Government Act 1972 (as amended) – Background papers used in the preparation of this report. None

Supporting Documents

BD1 – Revenue Budget, Capital Programme and Council Tax 2023-24 (Appendix 16 & 17) - February 2023 Tri-Borough Executive Decision Report (moderngov.co.uk)

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