Executive Report

Milton Keynes City Council

Cabinet Decision – 5 December 2023

DRAFT COUNCIL HOUSING REVENUE ACCOUNT (HRA) BUDGET 2024/25 AND 30-YEAR BUSINESS PLAN REFRESH

Name of Cabinet Member	**Councillors Lauren Townsend and Emily Darlington** Cabinet Members for Resources / Adults, Housing and Healthy Communities
Report sponsor	**Steve Richardson** Director of Finance and Resources
Report author	**Natasha Hutchin** Assistant Director of Finance

Exempt / confidential / not for publication	**No**
Council Plan reference	**1 – "A Balanced Budget"**
Wards affected	**All wards**

Executive Summary

This report sets out the draft Housing Revenue Account (HRA) budget for 2024/25, for revenue and capital, together with the refresh of the 30 Year HRA Business Plan. The public consultation on these draft documents will commence on 12 December 2023, alongside the wider Council budget.

The financial position of the HRA has declined rapidly in recent years, for several reasons including the recent economic challenges where we have seen record and sustained levels of inflation and borrowing rates, government policy decisions on rent setting (caps and reductions) and additional regulatory requirements. As a new town and now a city, we grew quickly and that gives us further challenges with our stock, with similar ageing profiles and a substantial proportion of our stock being built from non-traditional construction materials, so we face several significant asset related challenges at the same time.

The draft HRA budget shows a balanced budget across the MTFP, and we are within the borrowing limit set as part of our Treasury Management Strategy in 2024/25 and 2025/26. However, based on the current core assumptions and stock investment profile, we will exceed our borrowing limit from 2026/27 and further work will need to be done to address the headroom gap across the remainder of the business plan period. Given the uncertainty of government policy direction as well as the wider economic climate, future investment decisions are very challenging, given these are significant, long-term investments and we need to ensure the long-term viability of the HRA. As a result, the quarterly refresh of the business plan undertaken in 2023/24 will continue into 2024/25 and until such time that the period of economic and government policy uncertainty settles.

The context for the 2024/25 budget is severe and the level of uncertainty both nationally and globally is stark. In particular:

- There is a risk that the UK will enter recession in late 2023 and 2024.
- Inflation has remained significantly higher than anticipated during 2023 and although this is predicted to fall into 2024, it will remain higher than the Bank of England target, adding further pressure to budgets.
- There is no Government rent policy after 2024/25 so rent setting beyond next financial year is unknown.
- There are substantial changes proposed to the regulatory framework for providers of social housing, with no additional funding for new burdens. Several changes are subject to consultation, which makes long term planning challenging.

The details in this report have been prepared in accordance with the framework set out in the Medium-Term Financial Outlook approved by Cabinet in September 2023 and the budget was developed in line with the political direction of the Progressive Alliance and in accordance with the following headline objectives:

- To balance the HRA budget in the coming financial year and over the business plan period, ensuring long term viability of the HRA against a backdrop of continuing austerity in Local Government and in particular, pressures in the Housing sector.
- To continue to deliver the Progressive Alliance's priorities as set out in the adopted Council Plan.

1. Decisions to be Made

1.1 That Cabinet notes and endorses the following draft budget proposals for the Housing Revenue Account, which are subject to the outcomes of consultation, which will commence on 12 December 2023:

(a) the draft Housing Revenue Account budget which has been updated for technical adjustments, revenue pressures and savings and a refresh of the capital programme, including a rent increase of 7.7% for tenants and 7% for shared owners;

(b) the draft Capital Programme for 2024/25 to 2027/28 (attached at Annex A of the report), which assumes approval of the Lakes Estate Regeneration budget which is also being considered at Cabinet on 5 December;

(c) that a period of six weeks consultation commences from 12 December 2023 (alongside the GF budget) with residents and the results of this are presented together with the final budget report; and

(d) the equalities impact assessments as set out in Section 5.

2. Why is the Decision Needed?

2.1 The purpose of this report is to:

- ensure that the Council meets its legal obligations to set a robust balanced budget for 2024/25;
- update and extend the financial forecasts for the period 2024/25 to 2027/28 together with a refresh of the 30 Year Business Plan; and
- to set out our approach to addressing the financial challenges over the medium term and managing short term uncertainty.

3. Background

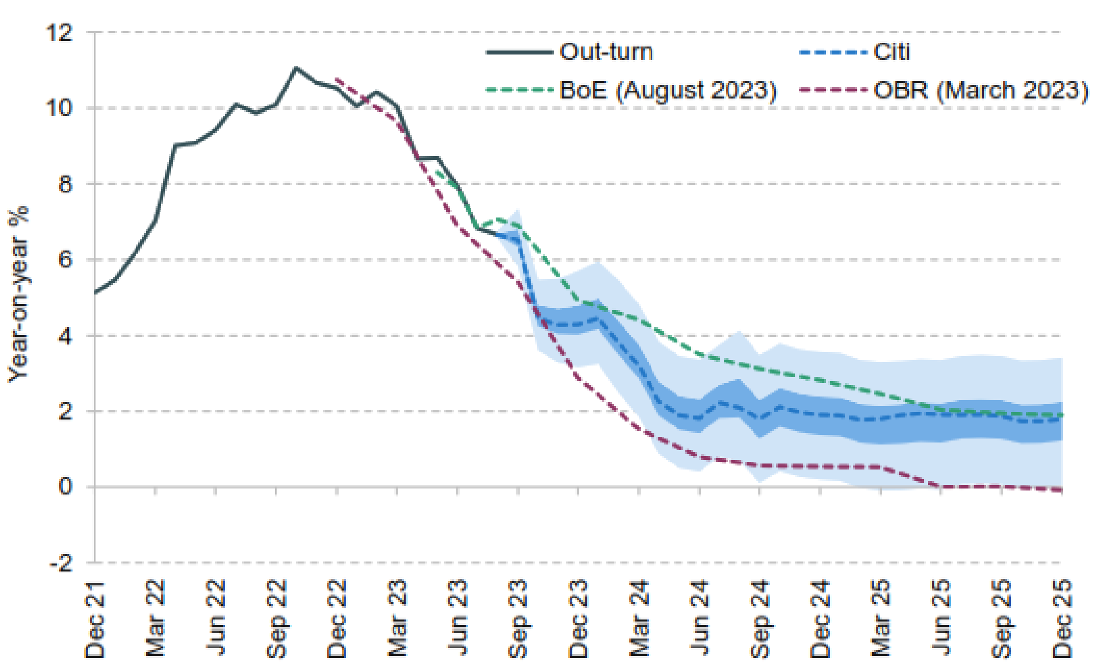
National Economic Position

3.1 The economic outlook has continued to deteriorate throughout 2023 due to a combination of factors including persistent high inflation, a tight labour market and global factors including the war in Ukraine. The economy is expected to go into a shallow recession in late 2023 and throughout 2024.

3.2 When the 2023/24 budget was set in February 2023, the Consumer Price Index (CPI) was already more than five time the government's 2% target at 10.4%, largely due to higher fuel and food prices. Over the last six months prices have started to fall. Twelve-month CPI inflation fell to 6.7% in September 2023, reflecting lower-than-expected core goods price inflation. CPI inflation remains well above the 2% target (4.6% at October 2023) but is expected to continue to fall in 2024. Forecast assumptions do vary but based on Bank of England forecasts, rates are expected to drop to 4.75% in 2023 Q4, 4.5% in 2024 Q1 and 3.75% in 2024 Q2.

Chart 1: UK CPI Inflation Forecasts

Figure 2.2. Forecasts for UK CPI inflation



Note: The shaded areas show the probability distribution around the in-house Citi forecast, with the darker shaded area denoting the range between the 40th and 60th percentiles of an adjusted, discretionary normal distribution around the core forecast. The lighter shaded area shows the range between the 20th and 80th percentiles of the distribution. The BoE forecast is the mean estimate from the August Monetary Policy Report. The OBR forecast is taken from the March Economic and Fiscal Outlook.

Source: ONS, OBR, Bank of England and Citi Research.

Indicators suggest that pay growth has stabilised, with data suggesting a fall in the number of job vacancies, easing of recruitment difficulties and a decline in pay growth over the coming quarters.

3.3 The Bank of England has been increasing interest rates to try to curb rising inflation and reduce demand and in August 2023 raised the Bank Rate to 5.25%, the highest since 2009. Projections indicate rates will remain at this level until the end of Q3 before gradually declining to around 4.25% by the end of 2026. There remains significant risk around these projections. Given the ongoing elevation of rates coupled with uncertainty, advice from our treasury management advisors has consistently recommended deferring capital expenditure where possible, or if not, then to borrow internally and only for a temporary period. Borrowing remains a significant risk for the HRA and as a result, rate assumptions have been amended in the latest refresh of the business plan.

Housing Economic Context

3.4 The Housing Revenue Account (HRA) is a ring-fenced account, which includes income and expenditure relating to the provision of housing to tenants and leaseholders. It is funded by rents and service charges, rather than from Council Tax.

3.5 Government rent policy has resulted in significant reductions in resources over recent years. The mandated rent cap of 7% in 2023/24 (which was 4.1% less than inflation), had the cumulative impact of removing £5m of annual income in perpetuity, equivalent to £117m borrowing (one year), with an estimated loss over the business plan period in terms of income of £240m. This is in addition to the impact of the four-year rent reductions between 2016 and 2020, which reduced resources in the business plan by £300m.

3.6 Like the General Fund, the HRA has been significantly impacted by the rapid increase in inflation. This has resulted in additional costs relating to pay awards, utilities and through our contracts, due to material, fuel, and labour cost increases, both in the current financial year, as well as across the MTFP.

3.7 The position across the MTFP remains challenging and we have had to make difficult decisions to ensure the long-term viability and robustness of the HRA, including reviewing the efficiency of our services but also how we prioritise investment and therefore delivery of new build Council housing outside of existing committed schemes remains on hold. Increases in the cost of materials, coupled with labour shortages and high borrowing costs currently make house-building unviable which has resulted in a national slowdown of the housebuilding market.

3.8 Given the uncertainty of government policy direction as well as the wider economic climate, this is going to make future investment decisions very challenging, given these are significant, long-term investments and we need to ensure the long-term viability of the HRA (where we are required to set a 30-year business plan).

4. Medium Term Financial Outlook

4.1 The HRA Medium Term Financial Plan (MTFP) was refreshed in September 2023, but at this time several assumptions were made around inflation, rent policy and planned maintenance requirements. The draft budget, presented in this report, has been updated to reflect the confirmed position on rents, latest updates on core assumptions and other key changes such as stock investment profiles and project cashflows. The outcome of our refresh of these core assumptions and the financial impact they have on the MTFP is shown in Table 1.

Table 1: HRA MTFP – December 2023 Draft Position

HRA MTFP	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Dwelling Rents	(59.859)	(64.167)	(66.047)	(68.126)	(70.183)
Other Income	(5.399)	(6.923)	(6.689)	(6.590)	(6.644)
Total Income	**(65.259)**	**(71.090)**	**(72.736)**	**(74.716)**	**(76.827)**
Repairs and Maintenance	13.937	16.148	16.523	16.850	17.105
General Management Services	19.269	21.110	19.860	20.177	20.358
Interest and Repayment of Borrowing	10.891	12.159	14.927	17.011	18.107
Bad Debt Provision	0.951	0.649	0.440	0.477	0.558
Funding for Capital Repairs	17.036	16.957	17.449	17.868	18.315
Contribution to/(from) Reserves	3.175	4.067	3.537	2.333	2.385
Total Expenditure	**65.259**	**71.090**	**72.736**	**74.716**	**76.827**
Net Budget	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Core Planning Assumptions

4.2 Corporate planning assumptions have been reviewed based on the available data at this time. As detailed in the 19 September 2023 MTFO report to Cabinet, we have seen significant increases in inflation and demand during 2023 and inflation projections are expected to remain elevated for longer than has been expected when the MTFP forecast were last refreshed. These have been reflected in the 2024/25 draft budget and a summary reflecting the key HRA core assumptions is included in Annex B.

Rent and Service Charges

4.3 Rent setting for social landlords is determined by Government policy under The Rent Standard. This allows for a maximum annual increase in rents of CPI (September 2023, 6.7%) + 1%, therefore for 2024/25 the maximum increase is 7.7%.

4.4 As a result of the wider financial and economic position, we propose to increase rents by 7.7% for existing tenants in 2024/25 and for shared owners there will be an increase of 7% (the uplift lags one year behind tenant rents as per the terms of leases) and the draft budget has been set on this basis. This is an average increase of £7.65 per week for tenants and £6.24 per week for shared owners.

4.5 Our rents remain one of the lowest for social housing providers in the region and when we formally set rents in February 2024, the budget report will be accompanied by a rent Affordability and Context report which evidences this.

4.6 Service charge setting is not included within the scope of the Rent Standard, but landlords are able to recover some costs through service charges. We do not make a profit from these services but look to fully recover all relevant costs from tenants and leaseholders so we can continue providing high quality services to our residents and ensure fairness across our tenant base. Since 2022/23 we have moved to full cost recovery of cleaning, caretaking and utility costs and any changes in these costs, for example because of inflation, will result in changes to charges to tenants and leaseholders.

4.7 In October 2022 we established a group of tenants and leaseholders who volunteered to be part of the service charge working group ensuring that tenants and leaseholders will be at the heart of decision making on the delivery and implementation of changes, ensuring full transparency of our approach. We wrote to all tenants and leaseholder in November 2023, giving them an update on the review and asking them to take part in the consultation online. This is currently a live consultation, the outcome of which will be reflected in the final budget to Cabinet in February 2024. The consultation information can be found here: Rent and service charges consultation | Milton Keynes City Council (milton-keynes.gov.uk).

4.8 We are acutely aware of the financial challenges facing our communities and tenants due to cost-of-living increases. Some tenants will not be impacted by these changes as they will see an increase in their housing benefit (HB/UC) to reflect rent increases and some service charges are also covered by HB/UC. However, we know this isn’t the case for all our tenants and continue to support those who are in financial crisis and by signposting to wider resources.

4.9 Setting rents at a lower level than proposed, would require further savings and reductions in expenditure to balance the budget with a reasonable amount of headroom to manage risk. It is likely that this would result in reductions to the Planned Investment Programme, given limited scope for immediate savings elsewhere. Given the detrimental effect on our ability to invest because of previous rent caps and reductions, this would not be recommended as this would have greater long term adverse impacts, given a likely decline in stock decency, additional reactive repairs, and disrepair cases. A 1% reduction in the rent increase would reduce revenue resources by £0.5m (equivalent to £14.5m of capital borrowing).

Pressures, Savings and Technical Adjustments (Revenue)

4.10 A breakdown of the draft pressures and savings are shown in Annex C, D and E.

4.11 The key pressures for 2024/25 include:

- One-off costs associated with the procurement and change of delivery approach for repairs and maintenance, which is currently out to consultation with tenants as agreed by Delegated Decision on 19 September 2023. This will include legal and procurement costs, systems development, and project management support (£0.8m).
- Increase in council tax void loss linked to major voids and planned decommissioning and proposals to increase the long-term void charge (currently subject to consultation) (£0.3m).
- Regulatory cost increases in relation to a proposed doubling of Housing Ombudsman fees (£0.05m).

4.12 As our stock ages, and due to the scale of non-traditional construction methods used, there will be occasions where continuing to invest in maintenance and enhancements of homes is not possible or does not present value for money. As a result, a general allowance is made within the business plan for stock loss (rent roll less associated costs), and this can also occur more substantially with the removal of blocks, for example the decommissioning of both of our tower blocks, The Gables and Mellish Court.

4.13 Recently we have written to tenants to inform them that 16 of our blocks of flats in the Bletchley area (referred to as Reema blocks linked to their construction method), will be decommissioned over the next five years and tenants will be rehoused over three phases. There are 180 flats in total, of which 159 are tenanted and 21 are owned by leaseholders and a budget of £3.4m (across the period of decommissioning) has been set to fund the monitoring and essential repair works along with the costs of decommissioning and moving of residents out (including statutory home loss payments and other expenses).

4.14 The key savings in 2024/25 include:

- a reduction in the development revenue feasibility and consultancy work to reflect the impact of reduced headroom availability for investment (-£0.2m).
- Reduction in staffing costs through efficiencies (-£0.2m)
- Reduction in the tenant support fund, to reflect demand levels now that this has been in place for two years and reflects the impact of effective signposting to wider support available (-£0.25m).

4.15 The key technical adjustments for 2024/25 include:

- The impact of rent increases and changes in stock profiles (-£4.3m).
- The impact of changing assumptions on bad debt (-£0.3m).
- The impact of changing interest costs because of rate changes, changes in the levels of cash balances and to reflect borrowing and debt refinancing (£1.1m).
- The impact of service charge recovery because of changing costs of services (e.g., inflation) (-£1.3m).

- The impact of inflation on contract expenditure, including insurance, utilities, pay inflation and reactive repairs (£2.0m). The reactive repairs contract is under review (as part of a wider consultation with tenants) and it is currently assumed that any changes will be cost neutral. This will be reviewed as the Housing Commissioning work progresses.

The Capital Programme

4.16 The HRA capital programme (component replacement, decarbonisation improvement in existing stock, providing additional housing, and undertaking regeneration) is funded from available funding in the revenue budget, after we have funded our operating costs (which we contribute to a ring-fenced HRA capital reserve), through Right to Buy receipts, specific grants or through borrowing. The maximum amount that we can borrow is determined by the level of spare revenue money we have to pay for interest costs on borrowing (and a prudent allowance for repayment of debt).

4.17 The provisional capital programme is included at Annex A and across the five-year MTFP, it makes an allowance of £98m for Planned Maintenance and Investment and £125m for regeneration, acquisitions, and demolition. There is currently an additional allowance for decarbonisation and energy improvement works of £58m, but this is subject to ongoing review of value for money, deliverability and affordability.

4.18 The programme can be funded within the overall capacity in the HRA as identified through the headroom position (section 4.31) in 2024/25 and 2025/26, but as noted earlier in this report, the borrowing position from 2026/27 currently exceeds our set limit and therefore this will be subject to ongoing review as part of the quarterly refresh of the business plan.

4.19 When noting the risks and uncertainty more broadly in this report, no additional investment can be agreed until the wider economic position becomes clearer, particularly regarding Government rent policy. It will also be critical that projects are well managed, reducing the risk of overspends – if these arise, there will need to be a reduction in other schemes.

4.20 Some budget lines are an allocation of resources to ensure the overall robustness of the business plan and are not at this stage being put forward for approval to spend (these have been highlighted in the annex). Resource and spend approval allocation is subject to normal governance processes, including developing business cases and approval by Programme Boards and the Corporate Portfolio Board.

4.21 We receive a share of the receipt when properties are sold under the Right to Buy scheme. The receipts can be held for up to five years and fund up to 40% of the replacement home, through acquisition or new build. If receipts are not used, they must be returned to Government with interest, which is calculated at 4% above base rate on a day-to-day basis.

4.22 Given the significant pressures repayment of receipts would put on the business plan, together with the impact of ongoing stock reductions on the HRA, we will need to prioritise expenditure that ensures we utilise receipts within their timeframe. Use of these receipts requires 60% match funding, and this will be financed from general HRA resources, including receipts anticipated from the sale of some long-term void dwellings.

4.23 Dwellings that have been identified for disposal are void properties and have been deemed not viable (or possible) to invest in to bring up to a lettable standard and disposal both reduces costs to the HRA (council tax, ASB etc.) and allows us to reinstate our Acquisitions programme, which is proposed as part of this budget. There is an annual cap on the number of acquisitions that can be made (when using right to buy receipts), this is currently 20 per annum and this will need to be monitored in line with the annual profile each year, average market costs and property size needs.

4.24 The capital budget for acquisitions over four years is set at £39m, financed by £16m of 141 receipts and £23m from general HRA resources. All rents for acquired properties will be set at affordable rent level and this is required to ensure that the new properties do not add additional pressure to the HRA business plan.

4.25 In addition to the revenue costs in relation to the Reema blocks (section 4.12), there will be capital of costs in relation to the 21 leaseholder buybacks and for demolition of the blocks. An allowance of £5.9m is included within the business plan, based on estimated market value of properties. This is in addition to the £3.4m to fund the monitoring, essential repair work and statutory home loss payments.

4.26 The business plan has been updated to take account of the final contract cost for the revised Lakes Phase A regeneration scheme, which includes the delivery of 183 new homes, community and commercial facilities and improved public realm, at a capital cost of £83.7m. This is financed by £15m of Homes England Grant and the remainder through HRA borrowing. Further detail on the scheme costs and wider business plan impacts are included in the Lakes Phase A report, also being considered on 5 December 2023. At the time of writing this report, the cashflow programming for the scheme is subject to change based on detailed programme planning that is ongoing. Any changes in cashflow will be reported as part of the final budget.

4.27 We currently have an allowance within the planned maintenance programme for delivery of the Social Housing Decarbonisation Programme wave one and two, which is in part grant funded. Wave one is nearing completion, but there has been an overspend due to inflation and complexities with the scheme. As a result, wave two is paused while the impact of this is assessed and to ensure any ongoing expenditure is value for money. Any decision to proceed on this would also be subject to an assessment of both the wider financial risks to the HRA (interest rates and inflation) and VFM assessment.

4.28 A budget outline across the main component spend has been set but prioritisation within these will be assessed by the service ahead of the final budget in February 2024. There may also be changes in the delivery model of planned maintenance, which is currently subject to consultation with tenants and leaseholders – it is currently assumed the cost of delivery under the new arrangements, will be in line with budget.

4.29 The pressures across the HRA have been significant and will continue to affect the level of resources we have for investment in existing stock as well as new build and wider estate renewal. Building new council homes remains challenging due to viability issues when considering inflation and supply in the construction market against low rents and high borrowing rates and as a result uncommitted new build development is on hold. It is critical that we ensure long term financial viability of the plan and make decisions on investment that strengthen this position, not worsen it.

30 Year Business Plan and MTFP

4.30 The 30-year business plan has been refreshed to take account of the changes referenced in this report, regarding inflation and other cost pressures. These include the same assumptions as reported for the General Fund on areas such as energy and general inflation as well as others specific to the HRA.

4.31 The Interest Cover Ratio (ICR) sets the limit of borrowing we are able to take in line with our Treasury Management Strategy. This allows for risk when considering interest rate movements, potential cost increases on schemes and other unknown circumstances.

4.32 The outcome of our refresh of the business plan is shown in Table 2.

Table 2: HRA Borrowing and Headroom Position (MTFP Period)

HRA Headroom Position	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Maximum Borrowing	294.369	340.205	394.421	383.796	402.629
Actual Borrowing	278.331	330.243	386.576	398.684	417.119
Available New Borrowing	**16.038**	**9.962**	**7.845**	**(14.888)**	**(14.490)**
Interest Cover Ratio (Minimum 1.25)	1.32	1.29	1.28	1.20	1.20
Changes Since September 23:					
Available Borrowing	(8.592)	(37.394)	(1.772)	11.251	32.021
Interest Cover Ratio	(0.041)	(0.159)	(0.003)	0.032	0.095

4.33 The latest forecast shows that we have a balanced budget across the MTFP, and we meet the Interest Cover Ratio in 2024/25 and 2025/26, provided our current expenditure plans are not exceeded. However, based on our current core assumptions and stock investment profile, the ICR is currently not met from 2026/27 onwards.

4.34 Given the uncertainty of government policy direction as well as the wider economic climate, future investment decisions are very challenging, given these are significant, long-term investments and we need to ensure the long-term viability of the HRA. As a result, the quarterly refresh of the business plan undertaken in 2023/24 will continue into 2024/25 and until such time that the period of economic and government policy uncertainty settles.

4.35 Whilst the current position anticipates additional borrowing headroom in the early years of the business plan, this is not significant and considering the risks highlighted throughout this report and linked to advice from external treasury advisors, additional borrowing cannot be taken. This would also worsen the current gap in future years.

4.36 The draft budget provides an initial view at a point in time and there will be further changes ahead of the final budget, but these are not expected to be of significant value. This will include an ongoing review of core assumptions (inflation), the outcome of consultation feedback on housing commissioning and service charges and the latest lump sum and cashflow of Lakes phase A.

Prudent Minimum Balance and Reserves

4.37 The Prudent Minimum Balance (PMB) is a statutory reserve to hold sufficient revenue funds to meet unexpected, unplanned expenditure or shortfalls to income not allowed for within the Councils landlord function, has been reviewed based on an assessment of budget risk and found to be sufficient for 2023/24 (£7.8m). The assessment of PMB levels is determined by assessing the risk of elements within the budget (impact and likelihood) together with a lump sum allowance for major risks, such as adverse events including weather, legislative changes, and other uninsurable events. The 30-year business plan assumes that PMB will inflate each year, in line with the increased expenditure and income budgets, but will be subject to an annual risk assessment. The detailed assessment for 2024/25 will be included within the final budget to Cabinet in February 2024, as part of the wider risk assessment of the whole budget.

Borrowing

4.38 The HRA will need to borrow to refinance maturing loans and new capital investment that the HRA cannot resource from existing resources or external grant. The primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should long-term plans change is a secondary objective.

4.39 Advice from our treasury management advisors has consistently recommended deferring capital expenditure where possible, or if not, then to borrow internally and only for a temporary period, as they project that interest rates are currently elevated due to the current economic conditions. We will continue to assess the appropriate time to borrow taking account of this advice.

4.40 The HRA is currently able to borrow from the PWLB at 40 basis points less than the GF following a change by the Treasury in June 2023 to provide additional support to HRA's. This additional discount currently only runs until 15 June 2024. If the Council borrows internally this cannot disadvantage the GF and we therefore may need to borrow externally given the differential in borrowing rates.

4.41 Due to the uncertain path of interest rates and borrowing costs, where borrowing is being taken this is likely to be done temporarily given the current expectation that rates will start to fall potentially within the next 12 months. However, this does mean that the Council will be taking additional risk with interest rate movements and therefore our approach to borrowing will need to be proportionate given the scale of both new borrowing and refinancing over the next one to three years.

4.42 Set out below are a set of principles that will be applied to HRA borrowing decisions:

1. Despite a time-limited one-year HRA preferential borrowing rate currently on offer, interest rate forecasts indicate that normal rates will fall to or below those preferential rates by the end of 2024 and the business plan model indicates the first point any borrowing would be required would be from early 2025. For this reason and without an immediate pressure to undertake borrowing within the limited-time period, it is not proposed that this is utilised.

2. Where GF cash resources and forecasts allow, and subject to analysis of mutual benefit, GF loans may be utilised to fund the HRA refinancing requirement. Any shortfall between the HRA financing requirement and internal loans would be met from new external loans.

3. The HRA borrowing requirement to fund new capital expenditure be met from raising new long-term external loans. A target borrowing rate is set at 3.50% - 3.80% for undertaking long-term borrowing. This rate is informed by market intelligence and forecasts from our treasury advisors Link and market commentators Capital Economics, and so could change in line with evolving economic conditions.

4. Should prevailing market conditions mean the target borrowing rate is unachievable, shorter-term 'bridging' loans (which may be at higher prevailing rates and could be through additional internal loans) may be drawn to delay long-term commitment until such time as interest rates fall within this upper boundary.

5. Should prevailing market conditions be favourable and forecasts indicate sustained rises ahead, borrowing in advance of cash need may be considered for schemes within the approved capital programme which are certain to go ahead.

6. Any new HRA loans supporting refinancing or capital development would most likely be on a maturity basis (interest-only with full principal repayment upon final maturity) and at fixed rates of interest to provide stability and certainty for business planning purposes.

7. When undertaking new long-term borrowing, loan periods will be informed by a) the maturity structure of existing HRA loans and b) latest modelling assumptions on surplus funds available to make principal repayments. No more than £17m will be structured to mature in any single year. This limit is consistent with the inherent structure of existing HRA loans and serves to contain annual refinancing interest rate risk.
8. The Treasury Management Code of Practice requires the Council to set upper and lower percentage limits to control the proportion of loans maturing within time bands. HRA limits are set within the annual Treasury Management Strategy and any HRA borrowing will comply with these restrictions.
9. Final execution amounts and timing of new HRA loans will be informed by future iterations of the HRA business plan model, analysis of cash balances and interest rate forecasts.

4.43 Table 3 below shows a summary of expected HRA borrowing movements.

Table 3: HRA Borrowing Summary

	2024/25	2025/26	2026/27	2027/28	2028/29	2029-64
	£m	£m	£m	£m	£m	£m
Balance on 01 April	278.110	330.243	386.576	398.684	417.119	423.283
Scheduled repayments	(14.750)	(17.000)	(17.000)	(17.000)	(17.000)	(211.860)
New loans: refinancing	9.000	11.750	13.500	13.500	15.000	163.250
New loans: capital (exc' SHDF2)	50.436	34.380	15.608	21.935	8.164	1.600
New loans: SHDF2 (indicative)	7.447	27.203	-	-	-	-
Balance on 31 March	**330.243**	**386.576**	**398.684**	**417.119**	**423.283**	**376.273**
Average borrowing rate	3.85%	3.88%	4.01%	4.13%	4.34%	4.64%

The average borrowing rate reflects the average rate of existing loans and assumed rates on new loans (including refinancing).

5. Implications of the Decision

Financial	Yes	Human rights, equalities, diversity	Yes
Legal	Yes	Policies or Council Plan	Yes
Communication	Yes	Procurement	Yes
Energy Efficiency	Yes	Workforce	Yes

(a) Financial Implications

The Council's Budget and Medium-Term Financial Strategy are the financial expression of all the Council's policies and plans.

A full risk assessment will be included with the Final Budget proposals for Cabinet in February 2024.

(b) Legal Implications

The Draft Budget sets the financial context and does not set the Budget as such there are no legal consequences for this report. The Budget will be set by Council in February 2024.

(c) Other Implications

An assessment has been completed. This built on previous assessments and engagement and found that the decision is likely to advance equality of opportunity. The proposed increase to rents by 7.7% for existing tenants in 2024/25 and for shared owners there will be an increase of 7% (the uplift lags one year behind tenant rents as per the terms of leases) will have a detrimental effect on the costs for households. However, this is in line or less than local private rented rents. Private sector rental increases have adversely affected child poverty. As the proportion of those private renting is higher amongst those with non-white British ethnicity, it is likely to adversely affect equality amongst those who have not been able to have private sector rentals. These rents remain one of the lowest for social housing providers in the region and when we formally set rents in February 2024, the budget report will be accompanied by a rent Affordability and Context report which evidences this.

6. Timetable for Implementation

- 12 December 2023 to 23 January 2024 - Budget Consultation.
- 6 February 2024 - Final Budget and Capital Programme report to Cabinet.
- 21 February 2024 - Final Budget and Capital Programme report to Council.

List of Annexes

Annex A HRA Capital Programme
Annex B HRA Core Assumptions
Annex C HRA Pressures
Annex D HRA Savings
Annex E HRA Technical Adjustments