COUNCIL

11 FEBRUARY 2025

REPORT OF CABINET

A.2 EXECUTIVE'S PROPOSALS – HOUSING REVENUE ACCOUNT BUDGET 2025/26

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To present to Council the Executive's Housing Revenue Account (HRA) budget proposals for 2025/26 (including fees and charges, capital programme and movement in HRA Balances).

EXECUTIVE SUMMARY

- The information and recommendations set out in this report reflect the Executive's HRA budget proposals, which were approved for submission to Council at their meeting on 31 January 2025.

- There have only been a very limited number of changes since Cabinet met on 31 January 2025, which have been reflected in **Appendices A to E** as necessary. The outcome of the changes required is a reduced deficit of **£1.043m** in 2025/26 compared with the figure of **£1.131m** reported to Cabinet in January. It is proposed to fund this estimated deficit by calling money from HRA balances as an alternative to potentially reducing expenditure.

- As has been the case in previous years, the use of reserves strikes a necessary balance of 'protecting' the investment in tenants' homes whilst recognising the need to use reserves to respond to the on-going financial challenges that the Council continues to face. It is however recognised that this is not a sustainable long-term solution, but it enables the Council to meet its key priorities in the immediate term, which can be revisited as part of the HRA Business Plan in future years.

- The above challenge is recognised within Cabinet's current initial highlight priorities for 2025/26.

- For 2025/26, the Executive's budget proposals set out an increase in dwelling rents of 2.7% along with a total HRA expenditure budget of **£18.592m** (net of indirect income / expenditure) and a capital programme totalling **£5.106m.**

- The 2.7% increase in dwelling rents results in an average weekly rent of **£103.49** in 2025/26. *(£100.89 in 2024/25)*

- **Appendix C** sets out the proposed fees and charges for 2025/26, which broadly reflect inflationary uplifts of 2.7% where relevant or other inflationary changes to better reflect the cost of providing the associated service.
- The proposed budget reflects the continued repayment of debt, with the total level of existing debt falling from **£32.535m** to **£31.120m** at the end of 2025/26.

- The HRA general balance is forecast to total **£2.683m** at the end of 2025/26, which retains a strong financial position against which the associated HRA 30 Year Business Plan can continue to be delivered / developed.

- The HRA balances, together with the proposed rent increase for 2025/26 are important elements of delivering a financially sustainable HRA in the longer term.

- The HRA Business Plan and proposed budget play a significant role in the delivery of affordable and decent housing in the district and the Council's responsibilities as a landlord has direct implications for the Council's ability to deliver on its objectives and wider priorities. This recognises the socio-demographics of the area and the increased focus on housing standards by the Government / Regulator.

RECOMMENDATION(S)

That Council approves:

(a) A 2.7% increase in dwelling rents in 2025/26; and

(b) subject to (a) above, the Housing Revenue Account Budget for 2025/26 as set out in Appendix B, along with the Fees and Charges, HRA Capital Programme and the movement in HRA Balances / Reserves as set out in Appendix C to Appendix E respectively.

REASON(S) FOR THE RECOMMENDATION(S)

To enable the Council to consider for approval the most up to date HRA Business Plan and proposed HRA budget for 2025/26.

ALTERNATIVE OPTIONS CONSIDERED

This is broadly covered in the main body of the report and earlier reports presented to Cabinet as part of developing the business plan and detailed estimates.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

A revised Corporate Plan and Vision was approved by Full Council at its meeting on 28 November 2023. One of the 6 included themes is Pride in our Area and Services to Residents, with a commitment to providing decent housing that everyone deserves.

At its meeting on 20 December 2024, Cabinet agreed a number of initial highlight priorities for consultation, which included:

To develop proposals to secure the long-term sustainability of Housing Revenue Account (HRA)

In respect to the Council's own housing stock, drive improvement with expanded estate management.

To develop the long term HRA 30 Year Business Plan proposals to secure sustainability of the HRA to include:

- Management of long-term empty properties.
- Responding to the new Government's drive to increase the stock of social housing e.g. additional flexibilities relating to retained "Right-to-Buy" (RTB) receipts.

The above form important elements of supporting the Council in delivering financial sustainability over the life of the business plan.

The HRA budget and Business Plan play a significant role in the delivery of affordable and decent housing in the district and the Council's responsibilities as a landlord has direct implications for the Council's ability to deliver on its objectives and priorities.

OUTCOME OF CONSULTATION AND ENGAGEMENT

Internal consultation is carried out via the Council's approach to developing the budget as set out within the Constitution.

The Resources and Services Overview and Scrutiny were consulted on the budget proposals at their meeting on 13 January 2025, with their comments considered by Cabinet on 31 January 2025.

A consultation exercise with the Tenants' panel is scheduled to take place ahead of the Full Council meeting on 11 February 2025. Any comments arising from this consultation will be provided to members, either ahead of the Full Council meeting on 11 February 2025 or directly at that meeting.

LEGAL REQUIREMENTS (including legislation & constitutional powers)

<table>
<tr><td rowspan="2">Is the recommendation a Key Decision (see the criteria stated here)</td><td rowspan="2">Yes</td><td>If Yes, indicate which by which criteria it is a Key Decision</td><td>X Significant effect on two or more wards
X Involves £100,000 expenditure/income
☐ Is otherwise significant for the service budget</td></tr>
<tr><td>And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)</td><td>This item has been included within the Forward Plan for a period in excess of 28 days.</td></tr>
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It is a statutory requirement on a local authority to determine its Housing Revenue Account budget before the upcoming financial year and to ensure that its implementation will not result in an overall debit balance on the Account. The plan and strategy which comprise the Housing Investment Programme (HRA Business Plan and Housing Strategy) form part of the Council's policy framework which must be approved or adopted by the Full Council, as set out in Article 4 of the Council's Constitution.

The self-financing regime for the Housing Revenue Account that came into effect from April

2012 was enabled by the Localism Act 2011.

The Regulator of Social Housing and its predecessor bodies have, at the Direction of Government, issued requirements and guidance to registered providers of social housing (which includes Local Authorities) in respect of rents. This has included the maximum levels of rent they can charge and annual increases in rents.

In 2016, Parliament passed the Welfare Reform and Work Act, which, together with Regulations made under it, created a legislation-based regime of rent reduction across the sector by 1% per year until 2020. Therefore, over this 4-year period, providers were required to reduce rents by 1% per year across its housing stock.

In October 2017, the Government announced that at the end of the 4-year rent reduction period it intended to return to annual rent increases of up to CPI + 1%, implemented through the regulator's Rent Standard rather than through legislation.

The Secretary of State for Housing, Communities and Local Government published on 26 February 2019 a 'Direction to the Regulator' to set a Rent Standard that will apply from 1 April 2020. That Direction was published alongside the Government's Policy Statement on Rents (the Policy Statement) and the regulator is required to have regard to this when setting its Rent Standard.

The regulator may under section 194(2A) of the Housing and Regeneration Act 2008 set standards for registered providers requiring them to comply with specified rules about their levels of rent (and the rules may, in particular, include provision for minimum or maximum levels of rent or levels of increase or decrease of rent).

Under the above direction, the Regulator of Social Housing confirmed rents could increase by up to CPI+1% per year for a period of 5 years starting from 1 April 2020. The Government did intervene in 2023/24, as based on this formula, rents would have increased by amounts in excess of 10% in that year given the high level of CPI at the time. Therefore to 'protect' existing tenants, whilst balancing the financial impact on Local Authorities, the Government set a rent increase 'cap' of 7% for 2023/24. The Government made it clear that this rent 'cap' would be set for only 2023/24 rather than for any longer period.

The Government are consulting on the introduction of a new rent policy from 1 April 2026 and in the interim period have issued a direction to the Regulator for Social Housing applicable to rents in 2025/26 only. Although the potential impact of the emerging rent policy will be considered as part of developing the HRA Business Plan in future years, for 2025/26 the direction issued allows for the continuation of the previous policy of applying CPI+1% to rent increases for existing tenants.

The rent standard does not apply to properties let to high-income social tenants, so rather than this being a mandatory requirement it remains a voluntary decision taken at a local level. In continuing with the approach agreed last year, given the very challenging administrative issues associated with charging higher rents to high-income tenants, it is not proposed to introduce this in 2025. However, it is acknowledged that this flexibility may be subject to review in future years, for example, as part of developing future policy decisions within the HRA and is subject to the Government's development of the proposed new rent policy from April 2026.

The Housing and Planning Act 2016 introduced a number of changes that had an impact on social housing, which via associated regulations, continue to be reflected in the HRA estimates as necessary.

The Social Housing (Regulation) Act 2023 saw the introduction of a new era of regulation for the social housing sector, which the Council has responded to in 2024/25. Work remains on-going to respond to the ongoing activities associated with the new regulatory regime, which includes reflecting the expected impact within the development of the HRA Business Plan.

The original HRA 30 Year Business Plan was agreed as part of the self-financing reforms and associated borrowing agreed by Full Council in February 2012 and the budget proposed for 2025/26 reflects the latest / updated forecast position set out in **Appendix A.**

As referenced within Cabinet's draft highlight priorities for 2025/26, although it is proposed to develop a revised Housing Strategy, in terms of the budget proposals for 2025/26 set out in this report, they are not in conflict with the existing Strategy and/or wider policy framework.

YES	**The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**

It is important to highlight that further decisions will be necessary to take actions forward that are reflected in the business plan and where these are required, the information must be published setting out the reasons for such decision.

It is also necessary to highlight the key elements of the Best Value Duty that is set out within the General Fund Budget report presented earlier in the agenda. These equally apply to the HRA with financial management and sustainability a reoccurring expectation of a well-functioning local authority.

Reference is made to the HRA Business Plan and Housing Strategy being part of the Policy Framework, and although the Cabinet's Highlight Priorities for 2024/25 and draft priorities for 2025/26 provide for a revised strategy to be presented for recommendation onto Council for adoption, and implementation, reassurance has been provided that nothing within this Report on the HRA Budget and its proposals contradict the existing Housing Strategy adopted by Full Council.

FINANCE AND OTHER RESOURCE IMPLICATIONS

The financial implications are set out in this report and its appendices.

Although the availability of financial resources is a key component in the delivery of HRA services, there will also be a need for appropriate input of other resources such as staffing, assets, IT etc.

YES	**The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:**

The S151 Officer is the author of this report.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services; B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	This is addressed in the body of the report. In terms of an independent view, the Council's previous External Auditor recently submitted their Annual Report that includes their commentary on the Council's use of resources. The report was considered by the Council's Audit Committee on 9 December with the Auditor's headline statement as follows: *"Our VFM work for 2020/21 to 2022/23 has not identified any significant weaknesses in the Authority's arrangements".*

MILESTONES AND DELIVERY

This reports forms the final element of the Council's annual HRA budget setting process, with the final budget proposals set out in this report being considered by Full Council in advance of the year that they relate to.

ASSOCIATED RISKS AND MITIGATION

There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. These have been brought into even sharper relief given the current challenging economic environment and new era of social housing regulation mentioned earlier. The Council's initial / short-term response is set out in the body of this report and will continue to be addressed as part of the future financial update reports.

The inherent risks associated with the 30 year business plan forecast include:

- Changes in income achieved and future rent setting policy
- Emergence of additional areas of spend
- Emergence of new or revised guidance
- New legislation / burdens / regulation
- Changing stock condition requirements
- Adverse changes in interest rates
- National welfare reforms

In view of the above, it is important that a sufficient level of balances / reserves is available to support the HRA. HRA General Balances are currently forecast to be **£2.683m** at the end of 2025/26. This is after taking account of the proposal to draw down money in 2025/26 that has been partly offset by the additional estimated contribution to balances of **£0.418m** in 2024/25. The remaining balance continues to be available to support the delivery of the HRA business plan in future years.

A 30 Year HRA Business Plan is maintained on an on-going basis that continues to demonstrate the sustainability and resilience of the HRA within a self-financing environment and the ability to potentially provide opportunities for housing investment and associated housing services in the future, although it is acknowledged that the longer-term view always remains subject to the Government's housing policies and changes to the regulatory regime. It is worth highlighting the potential impact of Local Government devolution / LGR which could make financial planning even more challenging over the business plan period.

As highlighted within earlier reports and referenced above, one of the biggest impacts on the overall financial position of the HRA in future years is the current regulatory regime for social housing. This is in addition to the national trend of continuing increases in housing disrepair claims made against local authorities. The Council remains committed to providing good quality housing in terms of both its current stock of housing and in its ambition of building / acquiring new homes for local people. Given the financial issues set out in this report, the balance between the two remains challenging in the short to medium term.

EQUALITY IMPLICATIONS

See comments below within the *'Other Relevant Considerations or Implications'* section.

SOCIAL VALUE CONSIDERATIONS

See comments below within the *'Other Relevant Considerations or Implications'* section.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2050

See comments below within the *'Other Relevant Considerations or Implications'* section.

OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

In carrying out its functions as a social landlord, the Council has regard to the need to reduce the potential for criminal activity by improving the security of dwellings as part of maintenance and repair programmes and for combating anti-social behaviour through effective management procedures.

Although there are no direct equality and diversity issues, the overall HRA and associated financial planning and decision making processes will recognise and include such issues where appropriate and relevant.

Work undertaken within the HRA and associated capital programme will take into account any opportunities to contribute to these key priorities where possible. The on-going / cyclical stock condition survey work will also support this approach.

Whilst this report does not have a direct impact on the Council's commitment to carbon neutrality, any work undertaken within the HRA and associated capital programme will take into account any opportunities to contribute to this key priority where possible. The on-going stock condition survey work will also support this approach.

Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND FINAL HRA BUSINESS PLAN AND BUDGET PROPOSALS 2025/26

On 31 January 2025 Cabinet considered the following report:-

A.6 **UPDATED HOUSING REVENUE ACCOUNT BUSINESS PLAN AND BUDGET PROPOSALS 2025/26**

It was resolved that Cabinet:

(a) approves the updated HRA Business Plan, which includes the proposed position for 2024/25 and 2025/26 as set out in Appendix A to the Portfolio Holders' joint report (A.6); and

(b) authorises the Director (Finance & IT) to adjust the forecast / budget, including the use of reserves, in consultation with the Portfolio Holder for Housing and Planning and the Portfolio Holder for Corporate Finance and Governance if the financial position changes prior to Full Council considering the HRA budget on 11 February 2025.

***RECOMMENDS TO COUNCIL** that a 2.7% increase in dwelling rents in 2025/26 along with the detailed HRA Budget proposals for 2025/26, as set out in Appendices B to E of the Portfolio Holders' joint report (A.6), be approved.*

There have only been a limited number of charges required since 31 January 2025, which primarily reflect the final recharges from the General Fund. The changes required are highlighted in Column 7 within **Appendix A**. The net change totals **£0.088m**, with the deficit reported to Cabinet in January decreasing from **£1.131m** to **£1.043m. Appendices B and E** have also been updated to reflect this change.

As set out in the earlier reports to Cabinet, in terms of 2025/26, it is proposed to meet the above deficit from HRA balances rather than reduce other lines of the budget which could be an alternative approach. Many of the other lines of the forecast are effectively 'fixed' or largely unavoidable, for example the financing of loan repayments, with the only viable option therefore relating to potentially reducing officer capacity or expenditure on tenants' homes etc. These options would be a significant risk given the new era of social housing regulation and it would see a potentially significant reduction in the investment in the housing stock, which would be challenging ahead of the revised decent homes standard that is expected this year.

As has been the case in previous years, the use of reserves strikes a necessary balance of 'protecting' the investment in tenants' homes whilst recognising the need to use reserves to respond to the on-going financial challenges that the Council continues to face. It is however recognised that this is not a sustainable long-term solution, but it enables the Council to meet its key priorities in the immediate term, which can be revisited as part of the HRA Business Plan in future years.

Not-withstanding the above, based on current forecasts of future years of the business plan, the potential use of reserves would significantly reduce the general HRA balance over the next two to three years. It will therefore be important that the Council explores opportunities to balance the various competing issues during 2025/26, to inform the business plan and budget from 2026/27, which has been acknowledged within Cabinet's initial highlight priorities mentioned earlier.

In terms of 2024/25, it is proposed to contribute the revised net surplus of **£0.418m** to HRA balances. When taken together with the surplus reported as part of the outturn position for

2023/24, a total of **£0.938m** would have been paid into the general HRA reserves during 2024/25. This therefore more than offsets the use of the same reserve (**£0.860m)** to successfully complete the Spendells House capital scheme that was agreed earlier in the year. In terms of this latter point, it is also important to repeat the point included in the separate report considered by Cabinet in May 2024 and within associated discussions, that there remained a value for money case for the Spendells House project with the project therefore going ahead as planned, so it was not a case of diverting investment from elsewhere in the HRA or other opportunity costs emerging.

In respect of **Appendix A**, Column 6 sets out the forecast against which the detailed budgets have been finalised and as set out in the report to Cabinet on 31January 2025, some key budget headlines as follows:

- Rents are proposed to be increased by 2.7% resulting in an average weekly rent of **£103.49** in 2025/26.

- **£9.453m** is included within the forecast that relates to major refurbishment and repairs to the housing stock, an increase of **£1.900m** compared to 2024/25.

- Current estimates put the total HRA reserves at **£7.130m** by the end of 2025/26, with the general balances element within this amount being **£2.683m**.

- With forecast repayments of principal of **£1.415m** in 2025/26, the level of HRA debt at the end of 2025/26 is forecast to be **£31.120m,** with some additional details also set out below**.**

Appendices C and D set out proposed fees and charges and the HRA capital programme respectively. These have remained unchanged to the figures reported to Cabinet in January and broadly reflect inflationary increases of 2.7% where relevant (in line with the same increase applied to rents) or other inflationary changes to better reflect the cost of providing the associated service.

<u>HRA Debt</u>
Loans taken out to support the self-financing reforms back in 2012 continue to be repaid each year, with individual loans being completely paid off on a five year cycle, that reflects the loan structure agreed at the time. This approach results in lower debt and interest payments on an on-going basis over the 30 years of the business plan.

As part of previous business plan reviews it was agreed that more historic debt would be considered in future years, especially as it became repayable. Historic debt was traditionally based on ‘interest only’ type loans, which were ‘replaced’ as they matured. With this in mind, an historic loan of **£1.000m** matures in 2025/26. As was the case in 2022/23 and 2024/25, rather than simply refinance the loan with a further external loan, it is instead proposed to be refinanced via internal borrowing that takes advantage of the current positive cash flow position of the Council, whilst avoiding the current high interest rates at the present time. This therefore reduces net interest costs, which is reflected in the attached business plan. It is important to highlight that even though the money has been ‘borrowed’ internally, it is still included within the total outstanding HRA debt, which will need to be repaid at some time in the future either directly via revenue contributions / major repairs allowance or via 'replacement' external loans.

Although no provision has been made to repay the loan off at the present time, the position will be considered in future years along with the other historic HRA loans that were in place before the self-financing reforms, to provide a prudent / sustainable approach to managing this debt in the longer term.

Summaries of the proposed budgets for 2025/26 are as follows:

Table 1 – HRA Fund Revenue Budget

	2024/25 Original Budget £m	2025/26 Original Budget £m
Direct Expenditure	10.252	12.097
Direct Income	(16.720)	(17.513)
Indirect Income / Expenditure including Financing Costs *(including use of planned revenue commitments reserve in 2025/26)*	6.127	6.459
NET (SURPLUS) / DEFICIT	**(0.493)**	**1.043**
Contribution to / (from) Reserves	0.493	(1.043)

Table 2 – HRA Capital Programme

	2025/26 Original Budget
	£m
EXPENDITURE	5.106
FINANCING	
Major Repairs Reserve	3.556
Direct Revenue Contribution	1.550
Total Financing	**5.106**

HRA 30 YEAR BUSINESS PLAN / ROBUSTNESS OF THE HRA ESTIMATES

The formulation of the budget for 2025/26 is set against the context of the longer-term business plan. As highlighted within the legal and risk sections above, one area that is important to note, as it will have a major impact on the overall financial position of the HRA in future years, is the new era of social housing regulation emerging from the Social Housing (Regulation) Act 2023. This is in addition to the continuing national trend of increasing housing disrepair claims made against local authorities.

The Council remains committed to providing good quality housing and the proposed budget reflects the necessary investment in existing tenants' homes.

The business plan and budget continue to be ‘built’ on the basis of balancing optimism and caution across the various lines of the forecast. This includes acknowledging the increases in rent each year within the limits set out by the Social Housing regulator. The telescopic impact from not maximising rent increases are acknowledged as part of the budget setting process, with the aim of avoiding the knock-on impact from any alternative short term approach in later years of the forecast. Rental income continues to be supported by strong management intervention over the last few years to bring the level of void loss down to more favourable historic levels.

The structure of the loans taken out to support the self-financing reforms highlighted earlier will also provide financial ‘headroom’ in later years of the forecast to support future investment decisions.

The Council remains alert to any changes that may be required in managing its housing stock, which are reflected in the 30 Year business plan as necessary. The business plan will continue to be subject to updates during 2025/26 with the on-going aim of delivering the long term financial sustainability of the HRA, a commitment also reflected within Cabinet’s initial highlight priorities mentioned earlier.

Taking into account all relevant issues, including the background to future years of the business plan highlighted above, the estimates for 2025/26 can be considered as robust.

It is worth highlighting a number of issues presented within the Financial Performance Report that was considered by Cabinet on 21 October 2024, where a number of changes relating to the Right to Buy regime were set out, which included the following increased flexibilities in 2024/25 and 2025/26:

- The maximum permitted contribution from RTB receipts to replacement affordable housing has increased from 50% to 100%.
- RTB receipts will be permitted to be used alongside section 106 contributions which was previously prohibited.
- The cap on the percentage of replacements delivered as acquisitions each year (currently 50%) has been lifted.

As part of its Autumn Budget Statement, the Government made further announcements on a number of key HRA issues, which included the following:

- The Government will make 100% retention of Right to Buy (RTB) receipts permanent from 1 November 2024.
- RTB discounts will return to their pre-2012 levels from 21 November 2024.
- The Government will consult on a five-year rent settlement of CPI+1% for social landlords, with potential for this to be extended to 10 years.
- Preferential Public Works Loan Board borrowing rates for local authorities to build social housing will be extended to March 2026.

The impact and flexibilities that all of the above may bring to Local Authorities will be reviewed and considered as part of the on-going development of the HRA Business Plan, and

Capital Programme.
PREVIOUS RELEVANT DECISIONS
Financial Performance Report 2024/25 – General Update at the end of July 2024 - Item A.2 Cabinet 21 October 2024. Financial Performance Report 2024/25 – General Update at the end of September 2024 - Item A.8 Cabinet 15 November 2024. Updated Housing Revenue Account Business Plan and Budget Proposals 2025/26 – Item A.11 Cabinet 20 December 2024. Updated Housing Revenue Account Business Plan and Budget Proposals 2025/26 – Item A.6 Cabinet 31 January 2025.
BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL
None

APPENDICES	
Appendix A	Updated HRA Business Plan
Appendix B	Detailed HRA Budget Proposals 2025/26
Appendix C	HRA Proposed Service Charges / Fees and Charges 2025/26
Appendix D	HRA Capital Programme
Appendix E	HRA Reserves 2025/26

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