APPENDIX 1

Cabinet – 19 February 2025

Housing Revenue Account Budget and Housing Public Sector Capital Expenditure Programme 2025/26

Purpose	For Decision
Classification	Public
Executive Summary	The report sets out a proposed balanced HRA budget for 2025/26, including decisions to be taken on dwelling rents, garage rents, shared ownership and service charge. The proposed budget includes uplifted maintenance budgets meaning that a total of £18.939 million will be spent on maintaining tenant's properties in 2025/26. This proposal supports the Council's Corporate Plan commitments and responsibilities to its tenants. Budgets of £1.5 million and £1.87 million are proposed for Fire Safety & Statutory compliance, and Decarbonisation respectively. The proposed Capital Programme totals £30.820 million, including spend of £15.2 million on the continued development and acquisition of new Council dwellings. The Capital programme requires external loan finance of £12.865 million, with the cost of this borrowing covered in the medium-long term through the rents payable. The budget is supported by a 30 year business plan forecast and spending decisions taken within this proposed budget support the financial sustainability of the HRA over this longer term period through the protection of the minimum reserve balance and an appropriate level of interest cover.
Recommendations	**That Cabinet recommend approval of the following to Council:** **1. that from 07 April 2025, an increase in dwelling rents of 2.7% from the 2024/25**

	weekly rent level, in accordance with Government guidelines, be agreed; **2. that from 07 April 2025, an increase in garage rents of 2.7% from the 2024/25 weekly rent level be agreed;** **3. that from 07 April 2025, an increase in shared ownership property rents of 3.2% from the 2024/25 weekly rent level, in accordance with Government guidelines of RPI +0.5%, be agreed, and that the weekly rent of one additional property sold under previous legislation be increased by 2.7%;** **4. that from 07 April 2025 Service Charges will continue to reflect actual charges and following a reduction in window cleaning and utility costs, these respective charges will be reduced;** **5. that the HRA budget, as set out in Appendix 1 of this report, be agreed; and** **6. that a Housing Capital Programme to 2027/28, as set out in Appendix 4, be agreed.**
Reasons for recommendation(s)	The Current National agreed Rent Settlement allows for social housing rents to be increased by up to CPI +1%. To maximise rental income to continue to afford and provide energy efficient, safe and quality housing to our tenants, and to continue to provide new affordable housing it is recommended to set the rent increase to the maximum allowable and to confirm the capital programme to comply with statutory compliance regulations, the Social Housing Regulation Act 2023 and the Council's Corporate Plan commitments.
Ward(s)	All
Portfolio Holder(s)	Cllr Steve Davies – Housing and Homelessness

Strategic Director(s)	Richard Knott – Strategic Director Housing and Communities
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Introduction and background

1. This report sets out the proposed Housing Revenue Account (HRA) budget, the proposed rent levels and other charges, the maintenance programme and a proposed Housing Public Sector Capital Programme for 2025/26 – 2027/28.

2. The proposed budgets for 2025/26 were considered by tenants on the Tenants Involvement Group on 16 January 2025 and by the Housing and Communities Overview and Scrutiny Panel on 22 January 2025. Their comments are included in paragraphs 44-50 of this report.

3. The proposed HRA budget is attached as **Appendix 1,** the detailed maintenance programme at **Appendix 2**, the 3-year forecast medium term financial position at **Appendix 3,** the proposed Capital programme at **Appendix 4** and a 30 year business plan briefing document at **Appendix 5.**

Key Issues

4. Housing Authorities and Registered Providers face on-going challenges to maintain the continuation of high-quality services to their tenants, ensuring that buildings are safe and free from hazards and delivering greater energy efficiency measures in the retrofitting of their stock, as well as delivering more affordable homes. Tenants, too, are facing challenges over rises in the cost of living. The

proposal set out below to increase rents in line with the Government’s current recommendation is considered to strike the right balance to ensure that the Council continues to provide high quality services to tenants and that the necessary programmes of maintenance and repairs to council housing stock are undertaken, as well as delivering Decarbonisation targets and new affordable council homes in the district.

5. Members are asked to consider a number of financial issues for 2025/26.

Housing Rents

6. The proposed budget identifies a social rent increase of 2.7%, in line with the Government’s policy rent increase guidelines. It is the sixth increase, following a previous four-year social rent reduction programme.

7. Following the rent increase, average weekly rents will be £125.78 for 2025/26. The actual increase will vary by property but will amount to an average increase of £3.31 per week. Over 60% of tenants are in receipt of benefits to help pay rent costs.

Service Charges – Hostels & Flat Accommodation

8. Service Charges are currently used by the Council as a method to recover Council Tax and domestic and communal energy costs from tenants where their personal usage costs are charged directly to the Council by the respective billing organisations. Service Charges are also used to recover some aspects of equipment provision, cleaning and communal heating and lighting costs from tenants, which are also incurred in their respective properties.

9. From April 2024 an additional 800 tenants were charged their share of communal and domestic costs, not previously recovered. All charges were also revised and disaggregated to reflect accurate charges, and which then could be adjusted more flexibly each year. Therefore 1,300 tenants pay service charges to the Council and a review of costs and rates commences at the end of each calendar year to inform this report.

10. For 2025/26 total service charge income will reduce by £27,000, reflecting 1 less rent week during the year, and a small reduction in costs to the council for providing a new window cleaning contract and a reduction in utility costs.

Garage Rents

11. It is proposed that garage rent charges are increased in 2025/26 by 2.7% (£0.37 per week) to £14.27 per week, plus VAT where applicable.

Planned Maintenance & Improvement Works

12. The report proposes total budgetary provision of £13.534 million for planned maintenance and improvement works to houses and estates. This, together with budgetary provision of £5.405 million for reactive maintenance works means that, in total, £18.939 million will be spent on tenant’s properties in 2025/26. Details of the proposed works for 2025/26 and an indication of proposals for the following two years are set out in **Appendix 2**.

Fire Risk Assessment Works

13. Between 2022/23 and 2024/25 the Council will have spent £6.4 million on fire safety and statutory compliance matters. Further funding of £1.5 million has been allocated for 2025/26 to continue the requirements to address identified actions from Fire Risk Assessments (FRAs) in flat blocks.

Decarbonisation Programme

14. In 2023/24 work to establish the future upgrade programmes to deliver all homes to EPC C by 2030, and net zero carbon by 2050 were established. Measures required to each home within the Council stock to meet these targets is known and estimated costs applied up to 2050. 2024/25 was considered a transition year where planning the upgrade strategy began to be overtaken by the delivery of increased retrofit activity. Funding of £1.870 million is proposed for 2025/26, but total expenditure up to 2030 is likely to be £15 million, with a further £115 million required to meet net zero targets by 2050.

15. Expenditure in the next 3 years will likely be offset by securing a grant of up to £4.008 million from the Social Housing Decarbonisation Fund (SHDF).

HRA Income 2025/26

16. Estimated total income for 2025/26 is £860,000 higher than the original budget for 2024/25. The income variations from the 2024/25 approved budget are set out below:

	Change £000	Paragraph
Dwelling Rents	(834)	17
Non – Dwelling Rents	40	18
Service Charges	27	19
Contributions to Expenditure	(68)	20
Other Income	(25)	21
Total	**(860)**	

17. **Dwelling Rents (£834,000 increase)** – The proposed budget for 2025/26 includes the benefits of £913,000 arising from the proposed 2.7% rent increase, £118,000 from a net increase in property numbers from the development programme, including new shared ownership properties, offset by Right to Buy Sales, £23,000 from flexible rent and capped rent changes and £437,000 ongoing increased income arising during 2024/25. These additional items are offset by a reduction of £657,000 from the impact of the 2024/25 53-week rent year.

18. **Non - Dwelling Rents £40,000 reduction** – This income is derived from garages and rents of other housing land. The overall reduction reflects a £45,000 impact of reduced lettings due to voids and an ongoing project to provide a full options appraisal of all sites, and £14,000 from the impact of the 53-week rent year, offset by a £19,000 benefit arising from the proposed 2.7% increase in charges.

19. **Service Charges £27,000 reduction –** The service charges proposals detailed in Section 3 will result in reduced income of £27,000 largely due to income loss of £22,000 from the 53 rent week impact and £5,000 from reduced charges to reflect a reduction in costs to the council for providing a new window cleaning contract and a reduction in utility costs.

20. **Contributions to Expenditure (£68,000 increase)** – This additional income reflects a contribution of £51,000, from the Government, towards the estimated £200,000 additional costs arising from the National Insurance changes announced in the Budget and a £17,000 Government grant towards Tenant Satisfaction Measures Costs. The significant shortfall in National Insurance grant will impact the level of loan repayment possible, as detailed in paragraph 29.

21. **Other Income (£25,000 increase)** – The Shared Amenities contribution from the General Fund has increased by £48,000 to cover inflationary increases in costs and increases in expenditure on trees and other estate budgets. This is offset by a reduction in anticipated interest earnings of £23,000 due to lowering interest rates offset by increased opening balances brought forward from 2023/24.

HRA Expenditure 2025/26

22. Budgeted operating expenditure for 2025/26 is £2.027 million higher than the approved budget for 2024/25. After allowing for depreciation charges and transfers of £150,000 from reserves for specific earmarked projects, surplus resources available for making principal repayments on borrowing have reduced by £1.517 million to maintain a balanced Housing Revenue Account for the year, as detailed in paragraph 29 The major variations are set out below:

	Change £000	**Paragraph**
Cyclical/Reactive Maintenance	833	23
General Management	523	24
Grounds Maintenance and Trees	152	25
Housing Schemes and Temporary Accommodation	48	26
Capital Financing Costs - Interest	471	27
Operating Expenditure	2,027	
Contribution to Capital – Supporting Housing Strategy	500	28
	2,527	
Capital Financing Costs – Principal	(1,517)	29
Total	**1,010**	

23. **Cyclical/Reactive Maintenance £833,000** – Increased maintenance budgets are principally due to pay and prices increases of £209,000, £216,000 for the continuation of additional supplies and hired services costs identified and reported during 2024/25, an increase of £265,000 on cyclical maintenance due to the expansion of external cleaning works and other audit/maintenance contracts, the transfer of £56,000 of ICT costs previously allocated to General Management and the allocation of additional £47,000 depot asset maintenance costs.

24. **General Management £523,000** - Supervision and Management budgets will increase due to pay and prices increases of £349,000, by £478,000 for allocated costs from the Transformation Programme

and by additional Corporate and Democratic Process cost allocations of £404,000, representing £882,000 of additional corporate costs for the HRA to absorb, but these are offset by the removal of the 2024/25 £60,000 budget for a garages' sites survey, the transfer of £288,000 Planned Maintenance Staffing costs to capital budgets, to better utilise the Major Repairs funding, the removal of £53,000 from a vacant Housing Development Team post, a reduction of £98,000 in ICT allocations (£56,000 transferred to repairs and maintenance), a reduction of £70,000 in the pay award contingency to cover the excess impact of the 2024/25 award and £80,000 in reduced allocable corporate costs largely due to changes in ICT work programme allocations.

25. **Grounds Maintenance and Trees £152,000** – An increase in budgets is principally due to pay and prices increases of £43,000, an increase of £50,000 in trees maintenance costs following a contract retender, and £59,000 additional charges from the internal grounds' maintenance team, covering additional depot costs and additional ICT and mobile phone costs, following a detailed review of the allocation methodology.

26. **Housing Schemes and Temporary Accommodation £48,000** – Additional costs are principally due to inflation £17,000, the inclusion of an £18,000 allocation from the CCTV/Community Alarms team to cover monitoring in older persons accommodation and an increase of £9,000 in ICT allocations following the change in allocation methodology.

27. **Capital Financing Costs Interest £471,000** – Capital Financing costs have increased by £471,000. This is due to interest costs of £308,000 on forecast new borrowing for the proposed 2025/26 capital programme set out in paragraphs 34-38 of this report and £279,000 interest costs of the 2023/24 outturn and latest 2024/25 capital programmes, offset by a reduction of £116,000 in interest costs due to the repayment of the next £4.1 million instalment of the settlement borrowing in March 2025.

28. **Contribution to Capital - Supporting Housing Strategy** – This budget is the prescribed calculation of dwellings depreciation that needs to be charged to the Housing Revenue Account and is used to part fund the capital programme. The figure is based on a combination of factors including property valuation, component costs and remaining component life. Due principally to increased materials costs the estimated charge has been increased by £500,000 to £10.2 million.

29. **Capital Financing Costs – Principal (£1.517 million reduction)–** After allowing for transfers from reserves of £150,000, the Council is

required to set a balanced budget for the year. Increased operating expenditure of £2.527 million exceeds estimated increased operating income of £860,000, reducing the annual amount available for repaying principal on borrowing by £1.517 million. This means that there will not be sufficient resources to enable the maturing loan of £4.1 million to be repaid during 2025/26 and therefore additional new borrowing of £1.075 million will be required.

HRA Reserve Balance

30. The HRA Reserve balance as at 1 April 2024 was £1 million. This is a prudent level and meets with good governance practice.

31. The original 2024/25 HRA budget showed a break-even operating position, with no proposed reserves transfers. A financial update report for the year was presented to Cabinet on 5 February 2025, which included forecast variations to the year end. In accordance with current policy, any surplus or deficit for the year will be balanced by a transfer to or from the Acquisitions and Development Reserve, but assuming a break-even HRA position for the year 2024/25, this will result in a year-end balance of c£4.4 million as at 31 March 2025, after funding the capital programme.

32. The proposed HRA budget for 2025/26 currently shows a break-even position and therefore the estimated Housing Revenue Account balance (cash reserve) as at 31 March 2025 and 31 March 2026 will be £1 million.

30 Year Business Plan

33. In 2024/25 the Council, with the assistance of an external consultant produced an initial 30-year HRA business plan projection, a summary of which was included in the budget report last year. This projection was further refined during the last year which will inform a formal plan with an agreed strategic direction for stock investment and new housing development. A Briefing document is attached at **Appendix 5.**

Capital Programme

34. The proposed Housing Public Sector capital expenditure programme for 2025/26 totals £28.620 million. The detailed programme and anticipated funding is set out over the page with indicative details for future years in **Appendix 4.**

Proposed Expenditure	Original 2024/25 £000	Latest 2024/25 £000	Original 2025/26 £000
Fire Risk Assessment Works	1,000	1,000	1,500
Major Structural Refurbishments	1,260	1,260	0
Planned Maintenance & Improvements	8,600	8,600	11,100
Decarbonisation Works	2,170	1,970	1,870
Estate Improvements	200	200	200
Disabled Facilities Adaptations	950	950	950
Development Strategy	18,200	18,200	15,200
TOTAL	**32,380**	**32,180**	**30,820**
Funded by			
Revenue	9,700	9,700	10,200
Capital Receipts	2,000	4,200	4,000
Acquisitions and Dev. Reserve	1,768	950	950
Government Grant	7,922	6,676	2,805
External Borrowing	10,990	10,654	12,865
TOTAL	**32,380**	**32,180**	**30,820**

35. Significant works to properties, including mandatory compartmentation and new fire doors, are being carried out following detailed Fire Assessment surveys. Further funding of £1.5 million is proposed for 2025/26.

36. The Major Repairs budget has been increased by £2.500 million in 2025/26 to £11.100 million to reflect identified programme needs and the transfer of Planned Maintenance staffing costs previously charged to revenue. Details of the proposed programme are set out in Appendix 2 but include an increase in gas boiler replacements, and a catch-up programme of new window and door replacements which are required for the Council's drive to have all of its homes certified EPC C by 2030.

37. Funding of £1.870 million is proposed in 2025/26 to continue works for decarbonisation of the Council's housing stock and take advantage of any government grant funding available, as covered in more detail in paragraphs 14 and 15. Additional insulation programmes will be launched in 2025 to enhance the energy rating of properties and reduce fuel bills.

38. The Council’s current Housing Strategy and Corporate Plan prioritise the delivery of new affordable housing homes covering the period 2018 - 2026. The proposed capital programme for 2025/26 includes £15.200 million to be invested in additional homes. Expenditure is also expected over the period post 2025/26 through to the end of 2028, which has been accounted for in Appendix 3 with similar levels of proposed expenditure.

HRA Medium Term Financial Position

39. Attached at **Appendix 3** is an indication of HRA budgets for two years post 2025/26 and is included to enable decisions for 2025/26 to be made in the context of affordability for the medium term. With the onset of a significant decarbonisation programme and the increasing expenditure required to maintain the aging stock the HRA is placed under continuing significant pressure. It currently shows an estimated operating deficit of c£2.1 million in 2026/27 and £2.3 million in 2027/28. Expenditure and income budgets will be reviewed for those years with a view to reducing the gap, but any remaining deficit will be closed by reducing the loan principal amount repaid to the externally borrowed commitment level of £4.1 million. Significant future costs of the Major Repairs Programme and the Decarbonisation requirements will require both revenue and capital programme spend priorities to be reconsidered in accordance with the Corporate Plan priorities.

Corporate plan priorities

40. People Priority 1: Helping those in our community with the greatest need: Provide more quality, temporary accommodation for single people and families and work with our partners to tackle homelessness.

41. People Priority 3: Meeting housing needs: Provide increased numbers of affordable homes by 2026. Improve the energy efficiency of over 3,200 council houses by 2030. Work with our housing tenants to understand their needs and provide high quality service standards in line with the government’s new Social Housing Charter and regulatory regime.

Options appraisal

42. All spending options were considered, including postponing required capital works, but there is a risk that revenue spending will increase fixing end of life components.

43. Due to the age of a significant number of gas boilers, where parts are no longer available, there are very few alternative options to consider. Phasing of boiler replacements over a number of years has

already taken place, following the obsoletion of major parts in October 2024.

Consultation undertaken

Tenants' Views

44. Members of the Tenants' Involvement Group (TIG) were given the opportunity to review, scrutinise and challenge senior managers on the proposed HRA budget and report for 25/26.

45. Members of the TIG understand the recommended rent increase and, notwithstanding the recognised impact on tenants, realise the necessity and welcome continued input on the budget and budget setting. The TIG also understand that the majority of Councils and providers of social housing will be increasing rents by the allowed 2.7%.

46. Tenants feel the Council continue to take the 'tenant voice' and impact on tenants into account within budget setting and providing housing services.

47. The TIG group appreciate the Council's proposed focus on tenants' homes, reflected in the budgets outlined for both reactive maintenance and planned work, alongside a continued and appropriate focus on sustainability through the Council's decarbonisation and energy efficiency programmes.

48. Tenants also recognise the need for new Council homes and support the proposed budget to continue to provide much needed affordable homes in our communities.

49. Members of the TIG are reassured with the explanation from Officers of the Council, alongside answers to questions from the TIG, that the proposed budget and spend on tenants' homes and services has been thoroughly considered to ensure the right spend for both tenants and the Council

Housing & Communities Overview and Scrutiny Panel Comments

50. The Housing and Communities Overview and Scrutiny Panel considered the proposed HRA budget and housing public sector capital programme for 2025/26 and supported the recommendations.

Financial and resource implications

51. Attached at **Appendix 3** is an indication of HRA budgets for two years post 2025/26 and is included to enable decisions for 2025/26 to be made in the context of affordability for the medium term. With

the onset of a significant decarbonisation programme and the increasing expenditure required to maintain the aging stock the HRA is placed under continuing significant pressure. Whilst these budgets will be amended in future years, it shows an estimated operating deficit of c£2 million. Significant future costs of the Major Repairs Programme and the Decarbonisation requirements will require both revenue and capital programme spend priorities to be reconsidered in accordance with the Corporate Plan priorities.

Legal implications

52. The recommended capital and revenue funding levels for 2025/26 ensure ongoing compliance with legislation and guidance set by central government. Maintaining good quality and safe housing mitigates housing disrepair claims and other health and safety related claims.

Risk assessment

53. Risks related to safety compliance, maintaining the decent homes standard and maintaining the momentum toward achieving EPC C and net zero have been addressed by the recommended revenue and capital programmes.

Environmental / Climate and nature implications

54. The capital works programme continues to provide more sustainable measures to improve the thermal efficiency of Council housing stock, through more efficient window replacement programmes, insulation, boiler replacements and air source heat pumps. Following the previous work of the Greener Housing Task and Finish Group and the Greener Housing Strategy, the Council is committed to undertaking more sustainable measures year on year to reach the target of all 5,200 properties having a minimum energy efficiency rating of EPC C, which will require in excess of £6 million over the next 3 years to fund the initial phases of the work, and up to a further £9 million by 2030.

55. In the long-term decarbonisation of the entire stock will begin to take priority over meeting the EPC target, which will require the HRA to fund an additional £115 million of expenditure. This will present significant challenges to the HRA and future priorities and strategic choices will need to be carefully considered. Whilst meeting net zero will require some carbon off-setting in due course the programme will remove several thousand tonnes of carbon emissions each year.

56. Initially works are targeted at the worst performing properties, which are often off the gas network and in rural areas. As a result, carbon

reduction impacts are likely to be higher at the outset of the programme and targeted in specific geographical areas.

57. All products used in the repair, maintenance and improvement of Council homes are selected to ensure the minimum impact upon the environment, are sourced from recycled materials where possible and at the same time balance the need to improve the energy efficiency of tenants' homes in order to meet the requirement for thermal efficiency under the Decent Homes Standard and meet specified and legal safety standards.

Equalities implications

58. All equality and diversity implications will be considered at every stage of the process of commissioning and carrying out planned maintenance, improvement and cyclical maintenance works. In addition, any contractor used for works will have been assessed, as part of the process in becoming an approved NFDC contractor, in respect of their adherence to equality and diversity principles.

59. The HRA funding priorities support the funding and commissioning of necessary works with a view to improving building quality and safety, and the energy efficiency performance of the council stock, which supports vulnerable people reduce household bills at a time of cost of living pressures, and which reduces disrepair and the exposure to damp and mould tackling health and housing inequalities.

60. The Tenancy Account Team, which incorporates a dedicated support worker, will continue to support and signpost tenants experiencing difficulties paying their rents, working collaboratively with community support networks.

61. The continued support for the development and acquisitions programme in 2025/26 addresses housing need issues and increases the supply of properties in where there is high demand for social housing, and which supports the Council's aims of tackling homelessness in vulnerable communities.

62. The continued support for the funding of Disabled Facilities Grants in the Council Owned stock support vulnerable and disabled tenants to remain in their own homes or provides suitable alternative housing options for applicants and existing tenants whose needs cannot me met by their existing accommodation.

Crime and disorder implications

63. Many aspects of work identified within this report will improve the security of tenants' homes and improve the condition and aesthetics of neighbourhoods.

Data protection / Information governance / ICT implications

64. There are no implications arising from the recommendations.

Conclusion

65. The proposed uplifted rent (in line with government guidelines) and service charges, as well as partial re-financing of the HRA settlement loan enable increased expenditure on housing maintenance and capital programmes. This increased expenditure ensures compliance with Housing Regulatory Standards. The proposed budget is supported with 30 year projections and potential for fiscal borrowing and debt increases to accommodate the programme.

Appendices:

Appendix 1 – Summary HRA
Appendix 2 – Maintenance Programme
Appendix 3 – 3 Year HRA MTFP
Appendix 4 – Capital Programme
Appendix 5 – 30 Year Business Plan Briefing Document.

Background Papers:

HOUSING REVENUE ACCOUNT BUDGET

	2024/25 £'000	2025/26 £'000	Variation £'000	Para
INCOME				
Dwelling Rents	-33,396	-34,230	-834	17
Non Dwelling Rents	-775	-735	40	18
Service Charges	-1,169	-1,142	27	19
Contributions towards Expenditure	-60	-128	-68	20
Interest Receivable	-441	-418	23	21
Sales Administration Recharge	-33	-33	0	21
Shared Amenities Contribution	-313	-361	-48	21
TOTAL INCOME	**-36,187**	**-37,047**	**-860**	
EXPENDITURE				
Repairs & Maintenance				
Cyclical Maintenance	1,886	2,234	348	23
Reactive Maintenance - General	3,400	3,520	120	23
Reactive Maintenance - Voids	1,521	1,886	365	23
General Management	7,765	8,288	523	24
Grounds Maintenance and Trees	935	1,087	152	25
Housing Schemes and Temporary Accommodation	1,151	1,199	48	26
Provision for Bad Debt	150	150	0	
Capital Financing Costs - Interest/Debt Management	5,137	5,608	471	27
TOTAL EXPENDITURE	**21,945**	**23,972**	**2,027**	
HRA OPERATING SURPLUS(-)	**-14,242**	**-13,075**	**1,167**	
Contribution to Capital - Supporting Housing Strategy	9,700	10,200	500	28
Capital Financing Costs - Principal	4,542	3,025	-1,517	29
HRA Total Annual Surplus(-) / Deficit	**0**	**150**	**150**	
Use of Reserves for Major Projects	**0**	**-150**	**-150**	
HRA TOTAL ANNUAL SURPLUS(-) / DEFICIT	**0**	**0**	**0**	

Appendix 2

2025/26 - 2027/28 MAINTENANCE BUDGETS

CYCLICAL MAINTENANCE	2025/26	2026/27	2027/28
External Cleaning and Decoration	637,000		
Appliance servicing (including gas, oil, solid fuel)	1,097,840		
Lift Servicing	100,000		
Fire Alarm Servicing	76,000		
Portable Appliance Testing	4,300		
Fire Risk Assessments	28,000		
Air Source Heat Pump Servicing	15,000		
CCTV, Laundry & Door Entry Servicing	62,000		
Legionella Testing	32,780		
Automatic Door Servicing	29,648		
Window Cleaning	18,900		
Alarms & Telecommunications	50,000		
Emergency Lighting	83,000		
TOTAL CYCLICAL MAINTENANCE BUDGET	**2,234,468**	**2,301,500**	**2,370,550**

PLANNED MAINTENANCE & IMPROVEMENTS	2025/26	2026/27	2027/28
Heating Replacement Gas	2,267,880		
Electrical Rewiring	884,220		
Sheltered Schemes Minor Works	221,080		
Low Maintenance Eaves	250,000		
External Door Replacements	1,038,000		
Pitched Roofing	685,000		
Repointing	10,500		
Window Replacements	1,750,000		
Kitchen Refurbishments	1,000,000		
Drainage	100,000		
Structural Works	300,000		
Asbestos surveys and removal	100,000		
Garages	200,000		
Bathroom Refurbishments	450,000		
Insurance Work	10,000		
Water Main Renewals	35,000		
Miscellaneous	1,798,320		
TOTAL PLANNED MIANTNENACE & IMPROVEMENT BUDGET	**11,100,000**	**11,433,000**	**11,775,990**

ESTATE IMPROVEMENTS	2025/26	2026/27	2027/28
Provision of estates works and paving	200,000		
TOTAL ESTATE IMPROVEMENTS BUDGET	**200,000**	**200,000**	**200,000**

TOTAL FORECAST MAINTENANCE EXPENDITURE	2025/26	2026/27	2027/28
TOTAL EXPENDITURE	**13,534,468**	**13,934,500**	**14,346,540**

Appendix 3

MEDIUM TERM FINANCIAL PLAN - HOUSING REVENUE ACCOUNT

	Budget 2025/26 £'000	Forecast 2026/27 £'000	Forecast 2027/28 £'000
INCOME			
Dwelling Rents	-34,230	-35,688	-37,042
Non Dwelling Rents	-735	-757	-780
Service Charges	-1,142	-1,176	-1,212
Contributions towards Expenditure	-128	-128	-128
Interest Receivable	-418	-350	-289
Sales Administration Recharge	-33	-33	-33
Shared Amenities Contribution	-361	-372	-383
TOTAL INCOME	**-37,047**	**-38,504**	**-39,866**
EXPENDITURE			
Repairs & Maintenance			
Cyclical Maintenance	2,234	2,301	2,370
Reactive Maintenance - General	3,520	3,626	3,734
Reactive Maintenance - Voids	1,886	1,943	2,001
General Management	8,288	8,537	8,793
Grounds Maintenance and Trees	1,087	1,120	1,153
Housing Schemes and Temporary Accommodation	1,199	1,235	1,272
Provision for Bad Debt	150	150	150
Capital Financing Costs - Interest/Debt Management	5,608	6,060	6,504
TOTAL EXPENDITURE	**23,972**	**24,971**	**25,977**
HRA OPERATING SURPLUS(-)	**-13,075**	**-13,533**	**-13,889**
Contribution to Capital - supporting Housing Strategy	10,200	10,500	10,800
* Capital Financing Costs - Principal	3,025	5,099	5,357
HRA Total Annual Surplus(-) / Deficit	**150**	**2,066**	**2,268**
Use of Reserves for Major Projects	**-150**	**0**	**0**
HRA TOTAL ANNUAL SURPLUS(-) / DEFICIT	**0**	**2,066**	**2,268**
OPTIONS IDENTIFIED TO CLOSE THE DEFICIT			
General Process Efficiency and Channel Shift		**200k-500k**	**200k-500k**
* Loan Re-financing		**upto £4.1m**	**upto £4.1m**

CAPITAL PROJECTS REQUIREMENTS WITH FINANCING

PUBLIC SECTOR HOUSING CAPITAL PROGRAMME

		PROJECT REQUIREMENTS £			2025/26 PROJECT FINANCING £				
		2025/26	**2026/27**	**2027/28**	**Grants & Conts.**	**Cap Receipts / DC's**	**Internal/External Borrowing**	**HRA**	**HRA Reserves**
Fire Risk Assessment Works	**HRA**	1,500,000	0				1,100,000	400,000	
HRA - Major Repairs	**HRA**	11,100,000	11,890,000	12,180,000			1,500,000	9,600,000	
Decarbonisation Works	**HRA**	1,870,000	1,920,000	1,970,000	926,000		944,000		
Estate Improvements	**HRA**	200,000	200,000	200,000				200,000	
Council Dwellings - Strategy Delivery	**HRA**	15,200,000	15,200,000	15,200,000	1,879,000	4,000,000	9,321,000		
Disabled Facilities Grants	**HRA**	950,000	950,000	950,000					950,000
		30,820,000	**30,160,000**	**30,500,000**	**2,805,000**	**4,000,000**	**12,865,000**	**10,200,000**	**950,000**
									30,820,000

30 Year HRA Business Plan Briefing

1. Introduction

This note has been prepared by Housing Finance Associates, using information supplied by officers at New Forest District Council about the authority's housing revenue account (HRA). It presents a baseline position plus two alternative development scenarios, which have been prepared using working papers and assumptions agreed with the authority using figures available during its budget-setting process in late 2024.

The projections summarise expenditure, investment, capital financing and borrowing in respect of council housing over a 30 year period, starting in 2024/25. We have presented a baseline position that reflects the authority's best available data and assumptions. The baseline allows for inflationary pressures to impact on budgets and programmes from 2025/26 onwards. It also assumes that National rent policy will permit maximum rent increases of CPI +1% until 2030/31, which is in line with a current consultation by government. Alongside this baseline we have also shown the effects of two separate alternative scenarios for future development:

1. Extending the current development programme by a further four years until 2038/39.
2. Continuing to replace dwellings sold under the Right to Buy for the full thirty-year period.

Note that our scenarios are intended to illustrate potential changes to the baseline, which could flow from policy decisions on the part from the council. They are not decisions made, nor do they constitute a full stress test of the authority's position. We recommend that the authority reviews the risks facing its HRA regularly, with a view to identify the effects of emerging situations at an early stage, testing its response and taking appropriate action to eliminate or mitigate the risk.

The first part of this note focuses on the baseline projections.

NB Since the publication of this briefing document there are some additional corporate costs proposed to be borne by the HRA in the HRA Budget 25/56 report which will require factoring in to long term projections.

2. Baseline projections

2.1. Baseline assumptions

The baseline assumptions reflect the revised 2024/25 revenue budget, draft 2025/26 budget and medium term projections for capital and revenue prepared by the authority's finance team. These update the approved budgets that were reported to Cabinet in the annual budget-setting report from February 2024. Other information and assumptions we have used in preparing this baseline projection include:

- Updated information on the authority's programme for developing and acquiring new dwellings over the medium term.
- Data from the right to buy pooling returns that the authority submits to MHCLG
- We have assumed that the authority sells 25 homes under the right to buy in 2024/25 and 40 homes in 2025/26, while it processes an influx of applications that followed publication in October 2024 of the government's plans to reform the Right to Buy and reduce discount levels. From 2026/27 onwards we have allowed for 10 to 11 sales pa.
- The authority aims to maintain a minimum HRA balance of £1.000m, adjusted for inflation
- Any sums generated by the HRA that exceed the minimum balance are made available to finance the capital programme or to repay debt.
- Actual rents increase at the maximum rate currently permitted by the rent standard. The maximum rent increase for existing tenants in 2025/26 has been set at 2.7%. Under the policy statement recently issued by government for consultation an increase of CPI +1% is expected to apply until 2030/31. We have made the prudent assumption that rent increases will be limited to a CPI uplift from April 2031.
- Formula rents increase at CPI +1% until 2030/31, in line with the government's policy statement consultation. From 2031/32 onwards we have assumed that formula rents increase in line with CPI.
- In 2024/25 the authority re-lets 5.5% of its social rent stock (282 units) at formula rent, with future relets in the same proportion. A small number of these dwellings (6 pa) are also re-let with an additional 5% rent flexibility charge, which is permitted under the rent standard.
- Depreciation costs have been estimated in line with the authority's budget, uplifted for inflation at CPI.
- Inflation has been applied as follows:
    - Underlying inflation for 2025/26 is linked to the CPI inflation rate of 1.7% for September 2024, as published by the Office for National Statistics. House prices for 2025/26 are assumed to have reduced b1.0%, in line with the house price index published for the New Forest by HM Land Registry for August 2024.
    - CPI at 2.25% in the final quarter of 2025 and 1.5% in the final quarter of 2026, based on projections prepared by the Bank of England and published in the August 2024 monetary policy report. These rates have been used to reflect underlying inflation for 2026/27 and 2027/28 respectively. From 2028/29 onwards we have assumed CPI runs at 2% pa.
    - RPI tracks at CPI +1%
    - General management and special management costs increase by underlying CPI.
    - Building costs increase at RPI. This affects spending projections for day to day repairs and maintenance, major works to existing homes and the provision or acquisition of new homes.
    - Other costs in the capital programme have been inflated by CPI.

- The baseline allows for the HRA to develop or acquire approximately 464 new homes between 2024/25 and 2034/35.
- Major works and component replacements are treated as 100% variable from 2027/28. These costs have an element that flexes to reflect increases and reductions in the housing stock.
- At the start of the planning period HRA debt includes internal borrowing from the Council of £9.812m.
- The projections assume a pooled interest rate of 4.8% would apply to new loans in 2024/25 and 2025/25, reducing to 4.2% for 2026+/27 and 2027/28, then a rate of 3.8% from 2028/29 onwards.

In preparing this projection we have assumed that the HRA would attempt to repay any additional external borrowing that it undertakes as quickly as possible. Our reason for making this assumption is that it gives a clearer indication of how well the HRA can service and repay any borrowing that is required to deliver its long term capital programme. Any actual borrowing undertaken by the authority would be subject to the prevailing market conditions and guidance received from the authority's treasury advisors.

2.2. Gaps in the data and potential risks

Note that there are gaps in the data available to the authority, which have required us to make assumptions about future expenditure in key areas. The two principal gaps we have identified relate to:

- The cost of unforeseen works that may be required when investing in the authority's existing housing stock. We have included a contingency to allow for such works.
- Lack of certainty around future National policies impacting on the Right to Buy, decarbonisation of the housing stock and associated funding. We have made prudent assumptions to accommodate these risks.

The profile of component replacements required for the existing stock is generated from the authority's stock condition data. We recommend continuing to update the modelling assumptions to accommodate new information from the stock condition data, as soon as it becomes available.

Other key risks include:

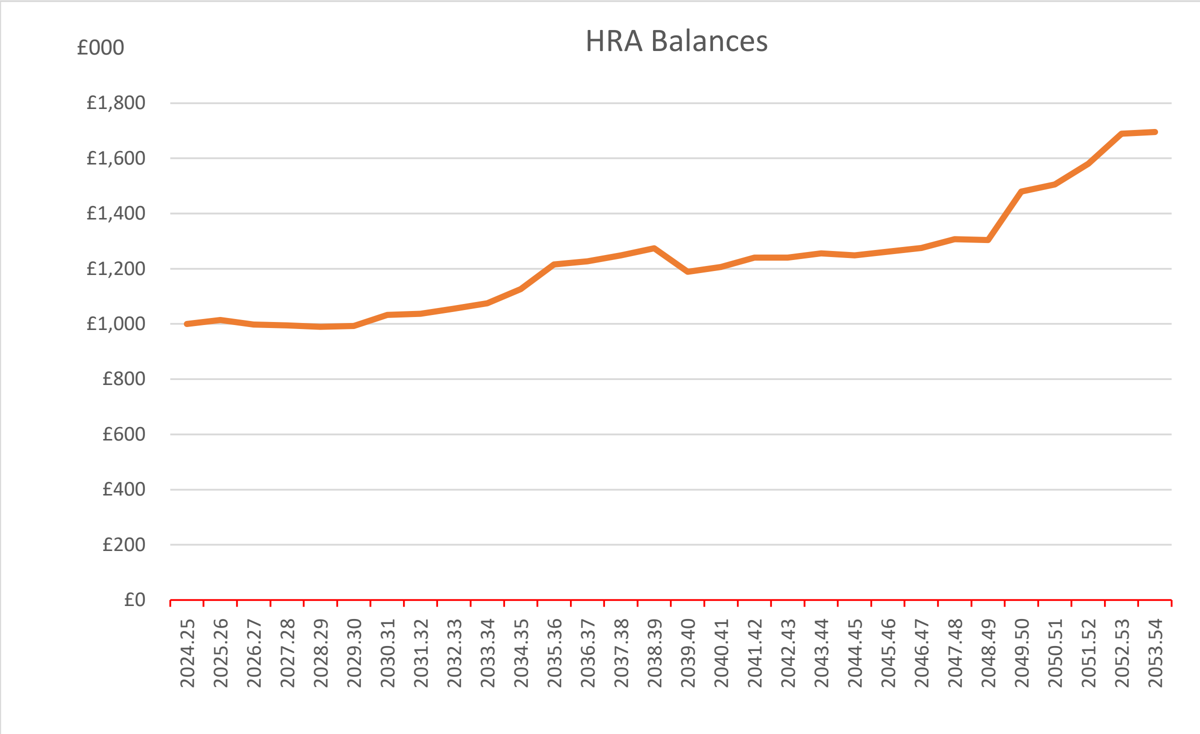
- fluctuations in the underlying rate of inflation, which can impact on both costs and income
- further constraint imposed on rent increases, whether by government or the authority itself
- increases in the costs of works and services that are not matched by increases in income
- changes to underlying interest rates

We recommend that the authority reviews the potential HRA impact of these risks regularly, as part of its early warning system. This will enable it to identify the effects of emerging situations at an early stage, test its response and take appropriate action to eliminate or mitigate the risk.

The effects of the baseline assumptions are shown in the following sections.

2.3. Baseline - revenue position

The chart below shows the authority's ability to maintain a minimum level of balances during the 30 year period covered by the baseline projection:

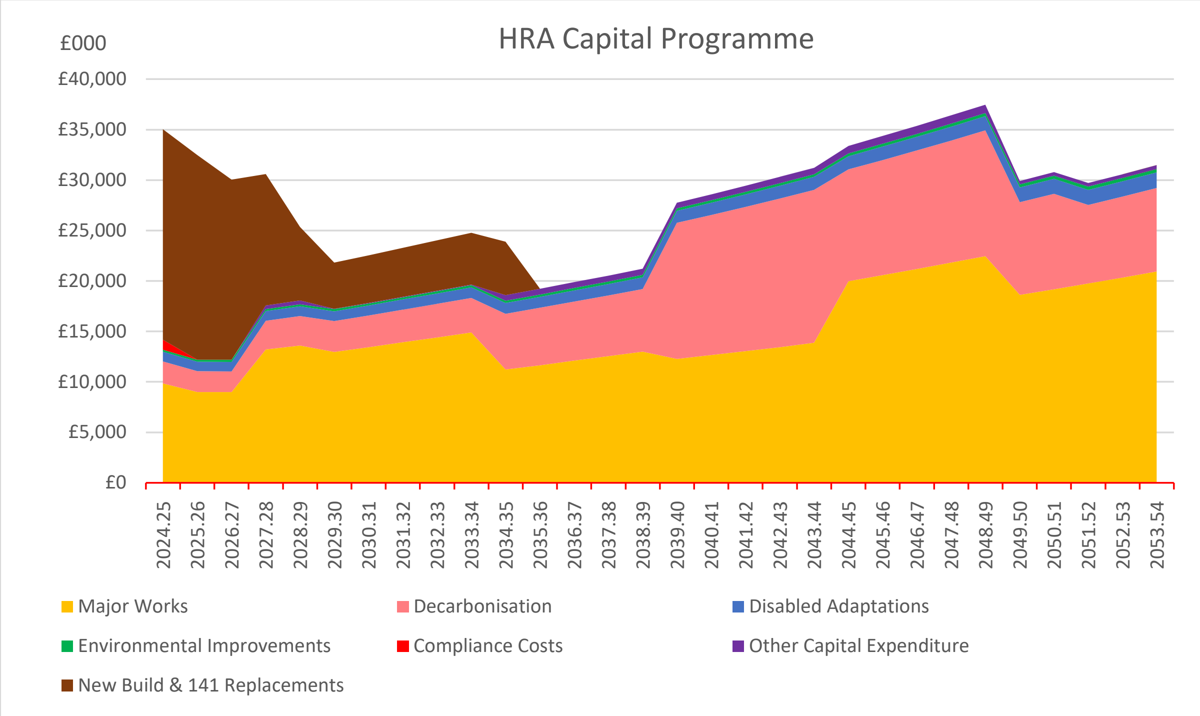


In this chart the orange line projects the cumulative HRA balance at the end of each year.

The authority maintains its minimum HRA balance of £1.000m (plus inflation) throughout the projections. During this period, any "spare" rents generated are used to pay for capital projects or to repay debt.

2.4. Baseline -capital programme

The next chart shows the scale and composition of the authority's projected capital programme:



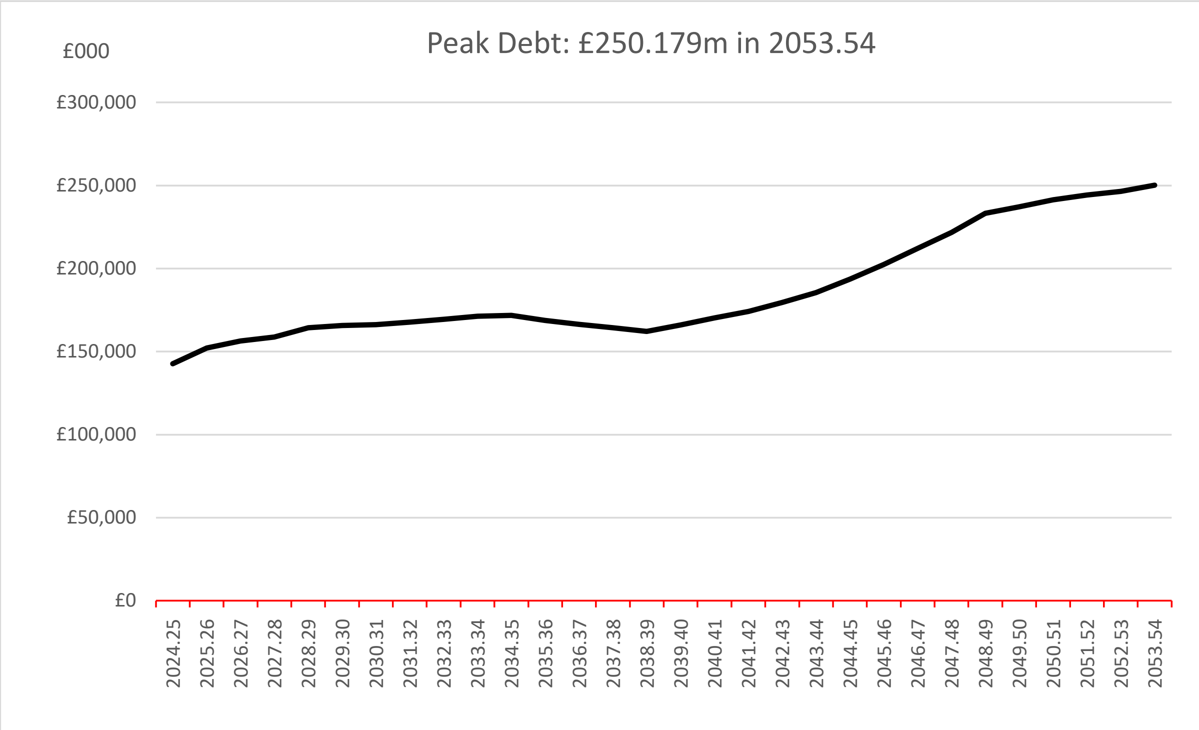
This projection includes a cautious 10 year programme for new build and stock purchase that produces 464 new properties between 2024/25 and 2034/35 (brown area). This reasonably represents the authority's commitment to increasing its housing stock over the medium term.

The amber area allows for investment required on stock condition, based on the existing capital programme and stock condition data, with a contingency for (as yet) unidentified additional stock investment. The pink area shows an allowance for improving energy efficiency of existing homes to EPC level C standard by 2030, plus wider decarbonisation works. This allowance is based on the existing capital programme and stock condition data, with a contingency for additional decarbonisation works. The total amount of decarbonisation investment in the above chart is consistent with representative levels assumed by other local authorities.

The average cost of major works at current prices, £50,190 per dwelling (excluding decarbonisation works). The allowance for decarbonisation comes to £25,015 per dwelling at current prices over the same period. These allowances are consistent with representative levels of investment in other authorities.

2.5. Baseline – debt

The next chart projects movements in the level of HRA debt during the planning period:



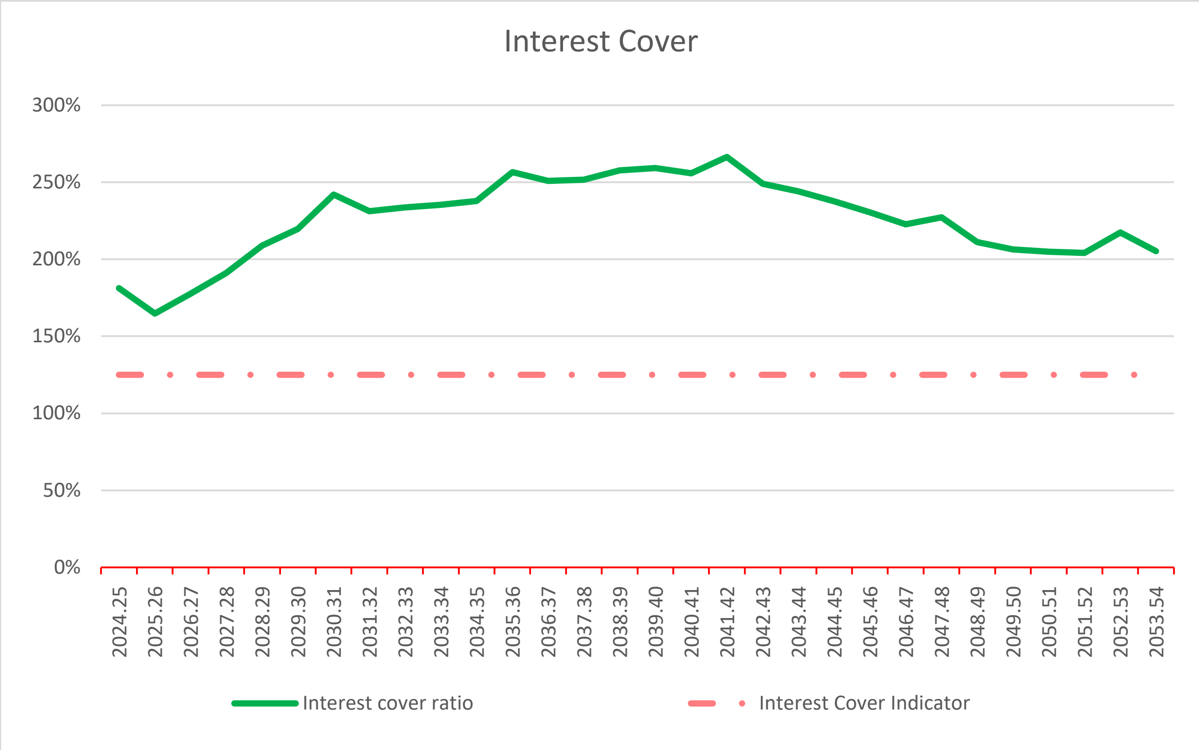
On these assumptions, the authority is unable to finance its capital programme entirely from its Major Repairs Reserve, revenue surpluses generated by the HRA and projected right to buy receipts. This causes the HRA to rely on borrowing to part-finance its HRA capital programme throughout the thirty year period.

HRA-related debt is projected to rise in most years, reaching a peak of £250.179m in 2053/54 – the final year of the projections. <u>It is noticeable that the authority is able to repay some debt between 2035/36 and 2038/39</u> although this remains a choice due to the capacity to service debt and the potential future pooling of HRAs under Local Government Reorganisation, which follows the end of the medium term development programme and precedes an expected increase in decarbonisation investment. From 2039/40 onwards the HRA needs to borrow more to finance its capital programme than it can afford to repay from the available resources, causing debt to rise for the remainder of the period.

Debt is at its peak level in 2053/54 and continuing to rise. This means that the authority would be exposed to potential fluctuations in interest rates over the long term. It will therefore be important to continue reviewing the authority's options as the underlying economic circumstances evolve.

2.6. Baseline – affordability

Alongside our projection of the ability of the HRA to repay the debt required to finance the assumed capital programme, the chart below compares the level of operational surplus it generates with a standard indicator used by other landlords:



The green line in this chart shows the number of times the revenue HRA surplus is able to cover the assumed interest charges on its debt. When the green line goes down the authority's HRA is either making smaller surpluses or paying more in interest charges and the reverse is true when the green line goes up. The static dashed pink line suggests a minimum level of 125%, below which the authority would be at risk of being unable to cover its interest costs from its operating surplus.

This chart shows reasonable levels of interest cover throughout the projections, which implies that the authority would be able to afford the level of borrowing required under the baseline assumptions. It is noticeable that performance against this metric deteriorates in the latter half of the planning period. This reflects an expectation that some costs will rise at a faster rate than income over the long term, as well as increases in borrowing to deliver the 30 year capital investment requirement. If debt continues to rise at the projected rate, it would eventually reach a level that is unaffordable to the HRA.

Any further increase in costs or loss of income would cause the drop in performance under this metric to accelerate, unless the authority is able to make cost savings or generate additional income to compensate. The types of additional cost that the authority could encounter might result from higher inflation, increases in interest charges, commitments to spend more on providing additional or improved services, or additional costs to secure compliance with regulatory requirements. Any constraint on rent levels (whether imposed by government, or by a local decision to set rents at a lower level) would have a similar negative impact on interest cover performance.

Note that the requirement for borrowing is very sensitive to assumptions relating to cost levels, income from rents and other sources, plus interest rates. Initial sensitivity testing of these assumptions indicates that the authority should continuously seek to minimise costs and maximise income as a way of keeping debt levels down and minimising the associated risks.

2.7. Baseline – summary

The baseline assumptions produce a position that looks affordable but starts to weaken over the long term. The HRA can use borrowing to increase the number of units over the medium term, but to protect the long term financial health of the HRA the authority needs to be cautious about future commitments, potentially forecasting in 5 year rolling periods. It will be important to continue to minimise costs, while maximising income and resources. Where possible, spending pressures should be contained within the levels of income growth the authority can achieve from rents and other charges.

3. Development Scenarios

3.1. Scenarios tested

The alternative scenarios we have tested for the authority are designed to indicate the potential impact of less cautious development programmes on the financial health of the authority's HRA.

Scenario 1 – development programme extended to deliver 524 new homes by 2038/39

Under Scenario 1 the authority would extend its development plans by a further 4 years, to 2038/39. This increases the number of new homes from the baseline assumption of approximately 464 dwellings by 2034/35, to approximately 524 new homes by 2038/39. All homes would be let at a social rent.

Scenario 2 –replace all RTB disposals for 30 years, delivering 673 new homes

Scenario 2 allows for the authority to replace dwellings sold under the right to buy over 30 years. This increases the new homes delivered from the baseline assumption of approx. 464 dwellings by 2034/35, to approx. 673 new homes by 2053/54. Again, all new homes would be let at a social rent.

3.2. Use of scenarios

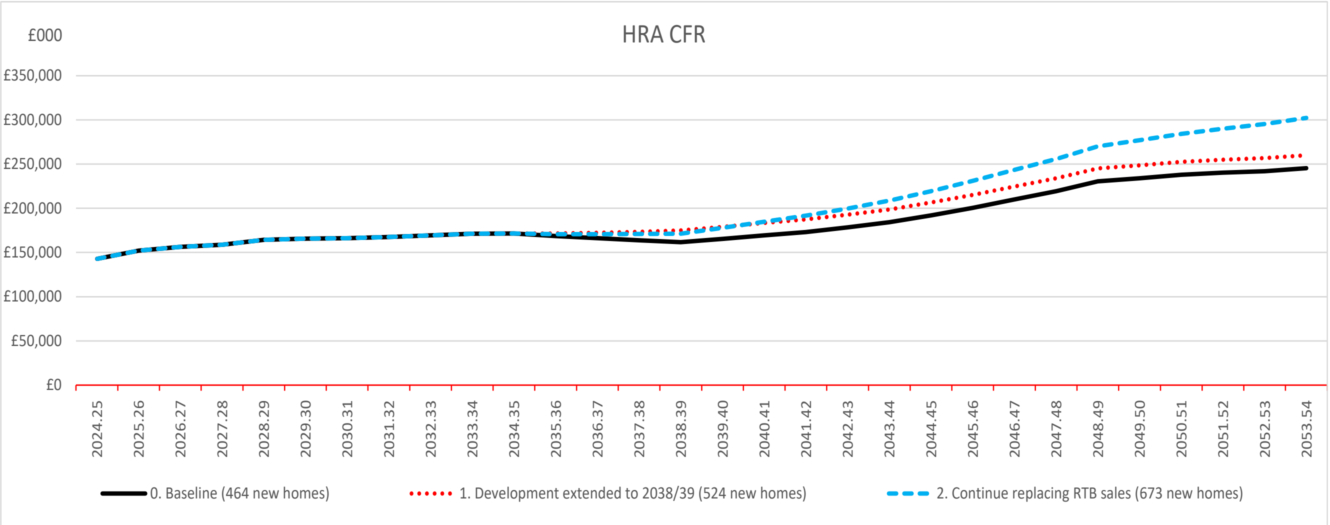
We recommend that the authority routinely reviews its HRA assumptions and tests the potential impact of different decisions, evolving economic circumstances and changes in government policy. In particular, it should regularly review its assumptions on inflation and interest rates, while updating expenditure assumptions to reflect its in-year monitoring of budgets and programmes.

Adopting a rigorous approach to stress testing the authority's HRA will help it to identify the effects of potential risks at an early stage, test its response and take appropriate action to eliminate or mitigate the risk.

3.3. Scenario results

The table below summarises the effects of each scenario on key financial metrics for the HRA. These are shown alongside the results produced by the baseline position.

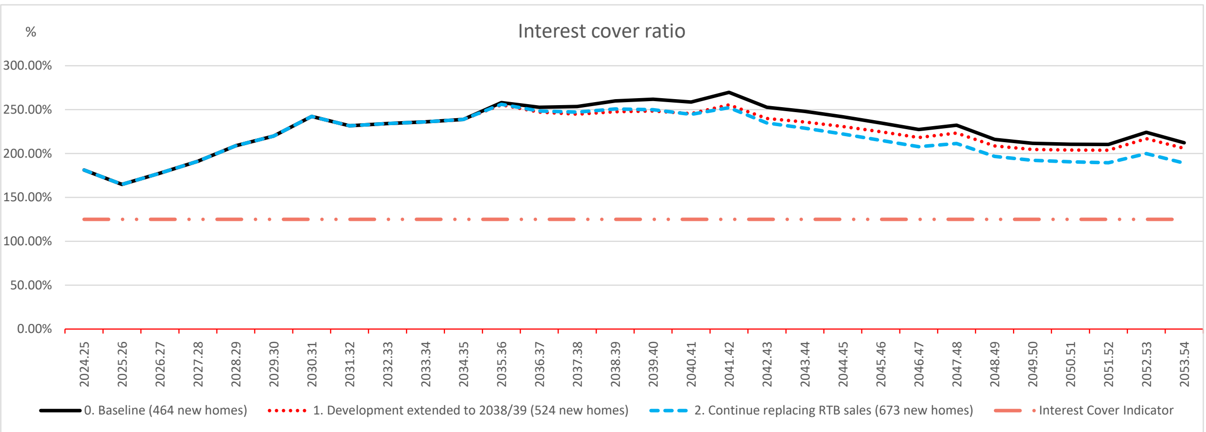
Our first chart shows the impact of the two different levels of development on the baseline debt projection:



In this chart the black line shows the baseline position (464 homes by 2034/35), as presented in section 2.5 of this briefing. The red dotted line shows Scenario 1 (524 homes by 2038/39) and the blue dashed line represents Scenario 2 – a 30 year programme of replacing RTB sales (673 homes by 2053/44). As might be expected, both of the scenarios require the authority to borrow more from 2035/36 onwards. Under Scenario 2, the authority needs to borrow at higher levels and debt continues to grow at a faster rate by the end of the period.

The authority's exposure to interest rate risk increases under both scenarios and is significantly higher under Scenario 2.

Our next chart shows the impact of each scenario on the affordability of HRA-related debt:



The black line in this chart shows the baseline position (464 homes by 2034/35), as presented in section 2.6 of this briefing. The red dotted line shows Scenario 1 (524 homes by 2038/39) and the blue dashed line represents Scenario 2 – a 30 year programme of replacing RTB sales (673 homes by 2053/44).

Under each scenario the higher debt level required means that the authority must pay more in interest charges than it generates from additional rents. As a result, the authority has less revenue resource available than under the baseline. Each scenario becomes less affordable than the baseline, as they have less available to spend on stock investment and the management and maintenance of its existing homes.

Under either of these scenarios the authority would need to consider mitigating action to help improve the financial health of its HRA over the long term. These actions might include:

- Reviewing service charges to ensure that they remain sufficient to cover the costs of the services provided
- Considering its choice of tenures when developing or acquiring new homes
- Committing to a medium term cost reduction programme that maintains downward pressure on the costs of housing management and repairs
- Generating additional capital receipts from disposal of appropriate assets on the open market
- Seeking additional external funding (e.g. for decarbonisation investment)
- A combination of the above measures

3.4. Scenarios – summary

Both of the scenarios weaken the position set by the baseline assumptions. It is clear that increasing the scale of the development programme:

- Increases the authority's reliance on debt finance; while
- Raising the associated costs of interest charges; and
- Reducing its ability to repay debt.

The HRA needs to operate as a business and many recent activities within the service demonstrate this transition, including service charge changes, new rent setting policy, receipt of grant funding, mini restructures, voids and rents improvement projects in place, the journey to meet consumer standards and business systems transformation including self-serve will reduce transactional costs and improve efficiency . Costs are only affordable while they are covered by the rents that tenants pay.

It is important that the authority continuously monitors the situation and takes steps to ensure that it protects the capacity of its HRA to deliver the investment required over the medium and long terms. There may also be further financial changes proposed by the national government following recent consultations to consider in due course. However, steps it might consider include:

- Ensuring that service charges are sufficient to cover the costs of the services provided
- Considering its choice of tenures when developing or acquiring new homes
- Committing to a medium term efficiency programme to maintain downward pressure on operating costs
- Generating additional capital receipts from disposal of appropriate assets on the open market
- Seeking additional external funding
- A combination of the above measures