Appendix 5 - The Housing Revenue Account (HRA) Proposed Budget 2025/26 - 2027/28

1. Background

1.1. The HRA is a ring-fenced account which deals with the finances of the Council's social housing stock. Budgets have been prepared in accordance with the budget guidelines and planned programmes of works to housing stock have been updated to take account of progress during 2024/25. The HRA budget must avoid a deficit on reserves over the 30-year HRA Business Plan.

1.2. Following the abolition of the statutory limit on HRA borrowing known as the debt cap in October 2019, the HRA is able to undertake prudential borrowing to support the creation and acquisition of long-term assets, as long as it is prudent, affordable, and sustainable within the context of its overall Business Plan.

1.3. The Current 30-year Business Plan allows for £70.830m of new borrowing under the prudential code in 2025/26-2027/28. The Plan shows that the HRA is able to fund the proposed capital investment which will raise the peak debt in the HRA from £215.701m to £286.531m in 2027/28. However, the Plan demonstrates that the proposed borrowing is prudent, affordable, and sustainable as the HRA has the capacity to repay £160.000m of this in later years and that the projected outstanding debt level at year 30 is forecast to be £126.531m. The updated 30-Year Business Plan includes the impacts of delivering the current Local Authority New Build Programme and the transfer of housing stock into the HRA from Homes for Reading.

2. HRA 2024/25 Revenue Budget & Medium-Term Financial Strategy (MTFS)

2.1. The HRA revenue budget for 2025/26 & MTFS for 2026/27 and 2027/28 is shown in Table 1 below and in more detail in Appendix 5 – Annex A.

Table 1. HRA Proposed Budget 2023/24 - 2025/26

	2025/26	2026/27	2027/28
	£000	£000	£000
Total Income	(52,838)	(55,571)	(57,671)
Total Expenditure	57,304	59,062	60,327
Net (Surplus)/Deficit	**4,466**	**3,491**	**2,552**
Opening HRA Balances	**(24,756)**	**(20,290)**	**(16,799)**
Net (Surplus)/Deficit	4,466	3,491	2,656
Closing HRA Balances	**(20,290)**	**(16,799)**	**(14,143)**

Planning Assumptions

Rents

2.2. In 2025/26 the proposal is to increase rents by 2.7% in line with the CPI figure taken from the nationally published CPI figure each September for the year preceding the rent increase. The CPI rate for September 2024 was 1.7%, therefore the baseline assumption for 2025/26 rent income is a 2.7% increase.

2.3. For future years, the rate has been estimated at 3.0% (CPI + 1%), in line with the Bank of England's long term inflation forecast of 2.0%.

2.4. Void Rates & Bad Debts are assumed at 2.0%.

2.5. The Council needs to consider its rent policy each financial year in the context of the HRA's financial viability. The anticipated effect of the 2025/26 rent proposals is therefore expected to be as follows:

Table 2. Average Weekly HRA Rents

	Bedrooms	Forecast 2023/24	Proposed 2024/25	Change	Change
		£	£	£	%
Average Rent per Week	1 Bed	102.51	105.28	2.77	2.7
Average Rent per Week	2 Bed	123.77	127.11	3.34	2.7
Average Rent per Week	3 Bed	137.96	141.68	3.72	2.7
Average Rent per Week	4 Bed	158.53	162.81	4.28	2.7

2.6. For historic reasons current rents are, on average across the stock 7.9% below the social housing formula rent set by Government, known as 'Target Rent'. As previously agreed by the Council, rent levels will be set in line with Target Rent whenever a property is re-let.

2.7. Historically, rent collection performance have been in the top quartile compared with the Council's comparator group.

2.8. Temporary accommodation is included in the General Fund. Rents are set at 90% of the Local Housing Allowance rate for the relevant unit size.

Right to Buy

2.9. 17 property sales assumed in 2025/26. For future years, 2 property sales are assumed per annum, reflecting that discounts available for RTB have been significantly reduced.

Service Charges

2.10. Service charges are assumed to increase by 2.7% in 2025/26, in line with the proposed rent increase, and by CPI +1% from 2026/27, but charges cannot exceed full cost recovery.

PFI Credit

2.11. Income from Central Government of £3.997m annually relating to the 1,248 properties in North Whitley and managed by Affinity Housing within the PFI Contract until 2034 has been included.

Interest on Balances

2.12. Interest on balances is assumed at 3.50% in 2025/26 and it is expected to slowly drop to 1% by 2035/36.

Expenditure

2.13. The business plan includes the latest updated 2024/25 forecast outturn. Costs are then increased by RPI in future years in line with the base assumptions outlined in 2.12. The business plan also anticipates any additional costs above the 2024/25 base forecast position where relevant.

2.14. The 2025/26 budget includes the following revenue bids:

Bid	Capital	Revenue (On Going)	Revenue (One Off)
	£000	£000	£000
Stock Condition Survey	0	0	450
HRA Additional Staffing	0	464	0
Total	**0**	**464**	**450**

3. Risk Implications

3.1. Many of the risks identified in respect of the General Fund revenue budget also have relevance for the Housing Revenue Account. Particular risks that pertain additionally to the HRA include:

- Rent collection levels that may be affected by any downturn in the local economy;
- Changes to benefits which may impact on rent collection levels;
- Increases in debt financing costs arising from inflationary and interest cost increases in relation to the new build programme;
- Actual property surveys requiring a level of repair and maintenance above that assumed within the budget; and
- Maintenance cost increases due to higher levels of inflation.

4. Housing Revenue Account Capital Programme

4.1. The currently proposed HRA Capital Programme is contained within Annex A.

New Build & Acquisitions

4.2. The local authority new build programme for the 2025/26 Budget and MTFS covering 2026/27 and 2027/28 is outlined in table 3 below. This includes investment to develop adult social care assets that are being appropriated into the HRA to deliver joint adults and housing needs:

Table 3. Local Authority New Build Programme (LANB)

	2025/26	2026/27	2027/28		
	£000	£000	£000	Units	Location
Homes for Reading	15,750	9,450	6,615	101	
LANB Phase 3	9,936	1,300	150	60	Wensley Road and Southcote Library
LANB Phase 4	22,926	2,341	337	74	Amethyst Lane & Dwyer Road + Others
LANB Assets Review ASC/Housing	16,782	500	0	42	Battle Street & Hexham Road
LAHF	3,019	0	0	5	
Total	**67,064**	**13,591**	**7,102**	**282**	

4.3. The HRA business plan assumes an additional 282 properties are delivered during the 3 years from 2025/26 to 2027/28.

4.4. The business plan benefits from the additional rental income derived from the new properties, at either social rent (target) for properties part funded by grant and adjusted social rent for all other properties, in line with the 2018 policy decision.

Major Repairs - Existing Homes Renewal

4.5. The Council also plans to invest £55.989m in its existing housing stock over the next three years. This includes £36.064m on Major Repairs - Existing Homes Renewal (including Fire Safety Works), £17.747m on Major Repairs – Zero Carbon Retrofit Works and £2.179m on Disabled Adaptations. The major repairs and disabled facility programme (DFG) for the 2025/26 Budget and MTFS covering 2026/27 and 2027/28 are outlined in table 2 below:

Table 4. Major Repairs - Existing Homes Renewal & DFG Programme

	2025/26	**2026/27**	**2027/28**
	£000	**£000**	**£000**
Major Repairs - Existing Homes Renewal	11,186	11,853	13,025
Major Repairs – Zero Carbon Retrofit Works	9,713	5,553	2,481
Disabled Facility Grant	712	726	741
Total	**21,611**	**18,132**	**16,247**

4.6. The building sector is currently experiencing increases in material costs and labour shortages following the recent market impact on inflation and interest rates. This might be a short-term issue, but it will put pressure on the major works and new build programme, as capital programmes may need to be restricted around available funding. It is important therefore that we maximise rental income and available funding to support the capital programmes.

Zero Carbon Retrofit Works

4.7. The housing service is investing £17.747m between 2025/26 and 2027/28 in moving towards zero carbon options in terms of retrofitting existing housing stock in line with the Council's Climate Change ambitions. The existing housing stock benefits from past initiatives which have ensured that most properties are above EPC level C. As such the Council is currently not benefitting from any extra Government funding towards zero carbon initiatives which are predominantly targeted at EPC level D and below. The Council is therefore reliant on the Housing Revenue Account to continue to pursue zero carbon options and therefore any reduction in income will limit the impact on what can be achieved.

4.8. The major repairs zero carbon retrofit programme includes the following works over the 30-year HRA business Plan:

- **Crosswalls Flats/Houses £14.9m.**
- **Woodley Crosswalls £0.1m.**
- **Kentwood Refurbishments £6.2m**.

5. Risk Implications

5.1. The main risks to the Council's Capital Programme are summarised below:

- Cost overruns would impose additional borrowing costs (and associated financing charges to revenue) if unable to be met from scheme contingencies or other mitigating actions;
- Slippage in realisation of capital receipts impacts on available financing sources, with the potential to lead to additional capital borrowing. In particular, significant slippage could leave

insufficient receipts to fully finance the transformation costs – which impacts pound for pound on the revenue account;

- Slippage in delivery of spend to save initiatives results in associated revenue savings not being delivered as anticipated; and
- The cost of delivering the capital projects increases due to inflationary pressures.

6. HRA 30 Year Business Plan

6.1. The HRA Business plan assumes major repair investment in the existing housing stock, covering planned component replacements (e.g. Kitchens & Bathrooms) and zero carbon initiatives.

6.2. The plan assumes investment of £21.182m in zero carbon initiatives up to 2029, based on currently available funding within the HRA.

6.3. As mentioned in 4.7 above, as the majority of our homes are rated above EPC level C, Houses within the HRA are not eligible for available government funding at the present time. If funding does become available this would enable more zero carbon initiatives to be carried out.

6.4. The current HRA balance is assumed to be £24.731m at the beginning of 2025/26. The base plan assumes that annual deficits will continue to arise whilst the PFI scheme is in place.

6.5. The PFI scheme is due to end in 2034/35, at which point the properties return to Reading Borough Council. The business plan assumes that the operating costs of the PFI fall away at this point resulting in a return to annual surpluses for the remainder of the 30 year Business plan.

6.6. Additional borrowing is required to part fund the capital programmes. At the beginning of the plan the capital finance requirement is forecast to be £215.701m, additional borrowing of £70.830m is required (all during the MTFS period of 2025/26 to 2027/28), taking peak borrowing to £286.531m.

6.7. The plan assumes a loans repayment from 2039/40 once there is a sufficient build-up of the HRA balance. Total repayments in the plan are £160.000m, which reduces the loan balance to £126.531m at the end of the plan.

6.8. The local authority new build (LANB) programme continues in the 30 year Business Plan until 2027/28, after which the current plan assumes there is no further investment in new build. Right to Buy sales are projected to continue at the level of 17 for 2025/26. From 2026/27, they are forecast to reduce to 2 per annum.

6.9. The business plan long term assumptions for CPI & RPI follow the latest OBR (Office for Budget Responsibility) forecasts.

6.10. Repair and build costs are assumed to increase by BCIS (Building cost information service forecast rates.

6.11. Rent & Service charges increases in the plan are assumed to increase by 2.7% in 2025/26, in line with the nationally published CPI figure in September 2024 and by CPI + 1% from 2026/27 for the duration of the plan.

6.12. The long-term Bank of England prediction on CPI & RPI is 2% and 3% respectively. As the long-term assumption of CPI + 1% is used on Rent & Service charges income, the overall long-term impact in the plan is 3% for both CPI & RPI.

6.13. The HRA balance, as shown below, is maintained above the minimum level throughout the duration of the plan. The minimum balance is adjusted in line with CPI annually.

Figure 1. Projected HRA Balance in 30 Year Business Plan