

Appendix 5 - The Housing Revenue Account (HRA) Proposed Budget 2026/27 - 2028/29

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 2025/26. The HRA budget must avoid a deficit on reserves over the 30-year HRA Business Plan. In addition, it is Reading Borough Council policy to retain a minimum balance equivalent to 10% of rental income.
- 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 £114.375m of new borrowing under the prudential code over the five-year period 2026/27 to 2031/32. The Plan shows that the HRA is able to fund the proposed capital investment and repay debt over the lifetime of the assets, which will extend beyond the 30-year timeframe of this plan. The level of debt reaches a peak of £379.555m in 2031/32, but the proposed borrowing is prudent and affordable, with £330.000m being repaid by year 30 of the plan. 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 2026/27 & MTFS for 2027/28 and 2028/29 is shown in Table 1 below and in more detail in Appendix 5 – Annex A.

Table 1. HRA Proposed Budget 2026/27 - 2028/29

	2026/27	2027/28	2028/29
	£000	£000	£000
Total Income	(55,817)	(58,935)	(62,043)
Total Expenditure	58,925	61,784	65,751
Net (Surplus)/Deficit	3,108	2,849	3,708
Opening HRA Balances	(19,187)	(16,079)	(13,230)
Net (Surplus)/Deficit	3,108	2,849	3,708
Closing HRA Balances	(16,079)	(13,230)	(9,522)

Planning Assumptions

Rents

- 2.2. A new policy statement on rents for social housing was published on 28th February 2026, with a new Direction from the Secretary of State being issued to the Regulator of Social Housing to ensure that its Rent Standard reflects the government's 10-year rent settlement for social housing. This includes:
 - permitting annual rent increases of up to CPI+1% on Social Rent and Affordable Rent homes from 1 April 2026 to 31 March 2036

- permitting the application of a Social Rent convergence mechanism, which would allow weekly rents for Social Rent homes that are below formula to be increased by up to additional £1 each year over and above CPI+1% from 1 April 2027, and by up to an additional £2 each year over and above CPI+1% from 1 April 2028, until formula rent is reached
- 2.3. The 30-year plan has been updated in line with this direction.
- 2.4. In 2026/27 the proposal is to increase rents by 4.8% 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 2025 was 3.8%, therefore the baseline assumption for 2026/27 rent income is a 4.8% increase.
- 2.5. 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%, alongside rent convergence starting at £1 per week from 1 April 2027 rising to £2 per week from 1 April 2028.
- 2.6. Void Rates are assumed at 2.0%. Bad Debts are assumed at 1.00%.
- 2.7. 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 2026/27 rent proposals is therefore expected to be as follows:

Table 2. Average Weekly HRA Rents

	Bedrooms	Forecast 2025/26	Proposed 2026/27	Change	Change
		£	£	£	%
Average Rent per Week	1 Bed	113.60	119.05	5.45	4.8
Average Rent per Week	2 Bed	128.08	134.23	6.15	4.8
Average Rent per Week	3 Bed	142.66	149.51	6.85	4.8
Average Rent per Week	4 Bed	163.73	171.59	7.86	4.8

- 2.8. For historic reasons current rents are, on average across the stock 8.0% 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 and rent convergence
- 2.9. Rent collection performance is in the top quartile compared with the Council's comparator group.
- 2.10. 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 (RTB)

- 2.11. The plan assumes 10 property sales in 2026/27, but this is forecast to reduce to 2 property sales per annum in future years, reflecting the revised rules around RTB that were announced in November 2024.

Service Charges

- 2.12. Service charges are assumed to increase by 4.8% in 2026/27, in line with the proposed rent increase, and by CPI +1% from 2027/28, but charges cannot exceed full cost recovery. This plan includes an increase to existing service charges to tenants to recover the full cost of Landlord cleaning and lighting services beginning 2026/27.

PFI Credit

- 2.13. Annual income from Central Government of £3.997m relating to the 1,238 properties in North Whitley and managed by Affinity Housing within the PFI Contract until 2034 has been included.

Interest on Balances

- 2.14. Interest on balances is assumed at 2.89% in 2026/27 and it is expected to slowly drop to 1% by 2035/36.

Expenditure

- 2.15. The business plan includes the latest updated 2025/26 forecast outturn. Costs are then increased by CPI in future years, with the General Fund assumptions being used for pay award. The business plan also anticipates any additional costs above the 2025/26 base forecast position where relevant.
- 2.16. The 2026/27 budget includes the following revenue bids:

Table 3. 2025/26 Business Case Summary

Bid	Capital	Revenue (On Going)	Revenue (One Off)
	£000	£000	£000
Service Charge Review	0	-253	0
Awaab's Law Damp & Mould	0	83	0
Wensley Phase 2	3,784	534	0
Total	3,784	364	0

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 & acquisitions programme for the 2026/27 Budget and MTFS covering 2027/28 and 2028/29 is outlined in table 4 below. This includes investment to develop assets that are being appropriated into the HRA to deliver joint adults and housing needs, alongside funding for the purchase of former Homes for Reading properties:

Table 4. Local Authority New Build & Acquisitions Programme (LANB)

	2026/27	2027/28	2028/29		
	£000	£000	£000	Units	Location
Homes for Reading	9,450	6,615	0	52	
LANB Phase 3	5,359	350	0	60	Wensley Road and Southcote Library
LANB Phase 4	11,454	35,964	48,101	276	Amethyst Lane, Dwyer Road & Dee Park <i>Some spend forecast in 2029/30 as well.</i>
LANB Assets Review ASC/Housing	13,939	19,912	3,982	104	Battle Street & Hexham Road
Total	40,202	62,841	52,083	492	

- 4.3. The HRA business plan assumes an additional 492 properties are delivered during the 4 years from 2026/27 to 2029/30.
- 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 £61.625m in its existing housing stock over the next three years. This includes £35.546m on Major Repairs, £23.903m on Major Repairs – Decent Homes and £2.176m on Disabled Adaptations. The major repairs and disabled facility programme (DFG) for the 2026/27 Budget and MTFS covering 2027/28 and 2028/29 are outlined in the table below:

Table 5. Major Repairs - Existing Homes Renewal & DFG Programme

	2026/27	2027/28	2028/29
	£000	£000	£000
Major Repairs	10,364	13,767	11,415
Major Repairs – Decent Homes	6,574	8,212	9,117
Disabled Facility Grant	711	725	740
Total	17,649	22,704	21,272

- 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.

Decent Homes Capital Works

- 4.7. The housing service is investing £23.903m between 2026/27 and 2028/29 to bring all current non-decent properties up to the decent standard. This is in line with the Regular for Social Housing (RSH) recommendations following the recent inspection.

5. Risk Implications

- 5.1. The main risks to the HRA Capital Programme are summarised below:

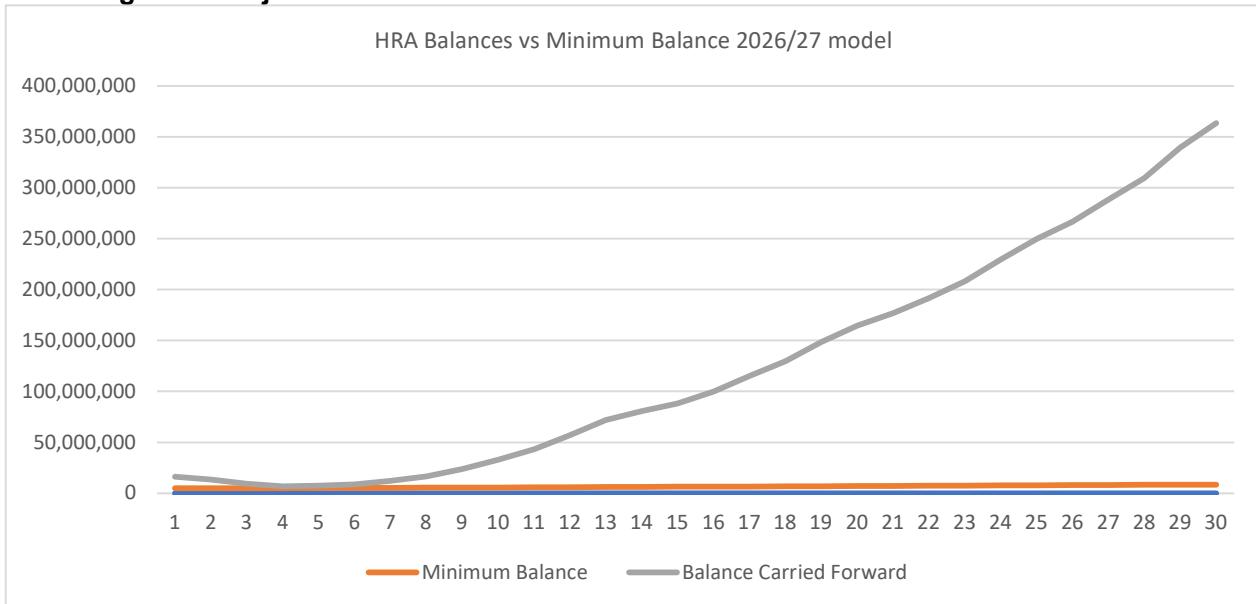
- Cost overruns would impose additional borrowing costs (and associated financing charges to revenue) if unable to be met from scheme contingencies or other mitigating actions;
- The cost of delivering the capital projects increases due to inflationary pressures.

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 £23.903m in Decent Homes Capital Works up to 2029, based on currently available funding within the HRA.
- 6.3. 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. Funding for ongoing repairs relating to these properties has been built into the 30-year works plan. There is likely to be a marginal increase in management costs however the net effect of this and other movements will be a return to annual surpluses for the remainder of the 30-year Business plan after 2034/35.
- 6.4. The current HRA balance is assumed to be £19.187m at the beginning of 2026/27. The base plan assumes that regular annual deficits will continue to arise whilst the PFI scheme is in place. 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. Repairs relating to these properties have been assumed for the remainder of the 30-year works plan. There is likely to be an increase in management costs however the net effect of this and other movements will lead to consistent annual surpluses for the remainder of the 30-year Business plan after 2034/35.
- 6.5. Additional borrowing is required to part fund the capital programme. At the beginning of the plan the capital finance requirement is forecast to be £265.180m, additional borrowing of £114.375m is required, taking peak borrowing to £379.555m.
- 6.6. 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 £330.000m, which reduces the loan balance to £49.555m at the end of the plan.
- 6.7. The local authority new build (LANB) programme continues in the 30-year Business Plan until 2029/30, 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 10 for 2026/27. From 2026/27, they are forecast to reduce to 2 per annum, reflecting the change in Government policy.
- 6.8. The business plan long term assumptions for CPI & RPI follow the latest OBR (Office for Budget Responsibility) forecasts.
- 6.9. Repair and build costs are assumed to increase by BCIS (Building cost information service forecast rates).
- 6.10. Rent & Service charges are assumed to increase by 4.8% in 2026/27, in line with the nationally published CPI figure in September 2025 and by CPI + 1% from 2027/28 for the duration of the plan alongside rent convergence starting at £1 per week from 1 April 2027 rising to £2 per week from 1 April 2028. The plan also includes an increase to existing service charges to tenants to recover the full cost of Landlord cleaning and lighting services beginning 2026/27.

- 6.11. 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.
- 6.12. 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 rent levels.

Figure 1. Projected HRA Balance in 30 Year Business Plan



Appendix 5 - Summary of the Proposed Housing Revenue Account Budget 2026-27

	Approved Budget 2025/26	Proposed Budget 2026/27	Proposed Budget 2027/28	Proposed Budget 2028/29
Dwelling Rents	(45,113)	(48,347)	(51,547)	(54,740)
Service Charges	(1,023)	(1,344)	(1,384)	(1,426)
PFI Credit	(4,924)	(4,924)	(4,924)	(4,924)
Other Income	(197)	(201)	(284)	(370)
Interest on Balances	(1,583)	(1,001)	(796)	(583)
Total Income	(52,840)	(55,817)	(58,935)	(62,043)
Management & Supervision	12,154	11,774	12,045	12,323
Special Services	5,114	5,056	5,157	5,260
Provision of Bad Debt	922	518	559	600
Repairs and Maintenance	9,229	10,353	11,709	13,144
Major Repairs/Depreciation	14,010	13,500	13,770	14,045
Debt Costs	8,059	9,123	9,754	11,396
PFI Costs	8,410	8,601	8,790	8,983
Total Expenditure	57,898	58,925	61,784	65,751
Net (Surplus)/Deficit	5,058	3,108	2,849	3,708
Forecast Opening HRA Balances	(24,245)	(19,187)	(16,079)	(13,230)
Net (Surplus)/Deficit	5,058	3,108	2,849	3,708
Forecast Closing HRA Balances	(19,187)	(16,079)	(13,230)	(9,522)

to 2028-29