

## HOUSING REVENUE ACCOUNT BUDGETS 2025-26

Meeting: **Executive**

Date Of Meeting: **13 February 2025**

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Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

### 1.0 Purpose of Report

1.1 This report seeks to recommend to Council approval of the Council's Housing Revenue Account (HRA) budget for 2025/26, including setting rents for Council homes for the next financial year.

### 2.0 Recommendations

2.1 The Executive is requested to:

#### RESOLVE THAT

- i. **In their regular reviews of the HRA Long Term Business Plan, the Executive should pay particular attention to interest rates and review the Plan based on that information.**

2.2 The Executive is requested to:

#### RECOMMEND TO COUNCIL THAT

- i. **The Final Housing Revenue Account budgets for 2025-26, as set out in Appendix 1 to the report, be agreed; and**
- ii. **With effect from 7 April 2025, rents be increased by 2.7%.**

### Reason for Decision

- 2.3 To enable a decision to be made by Council on the Housing Revenue budget for 2025 and approval of the increase in rents from 7 April 2025.

### **3.0 Proposal and Outcome**

- 3.1 This report sets out the Housing Revenue Account (HRA) budget for 2025/26, which will set the resources available to implement the Council's objectives for Housing. In addition, it will set rents for next financial year for Council tenants, which is the main source of HRA funding.
- 3.2 In addition, the Executive is asked to approve the recommendation arising from the Communities and Housing Scrutiny Committee on 11 December 2024 to pay particular attention to interest rate assumptions in future reviews of the 30-Year Housing Revenue Account (HRA) Business Plan.

### **4.0 Background**

- 4.1 This paper sets out the Council's Housing Revenue Account (HRA) budget for 2025/26.
- 4.2 The HRA will start next financial year with significantly depleted reserves, following a number of exceptional costs during 2024/25, including the cost of the evacuation team and moves at Brockhill and Sheerwater-related costs. The HRA Business Plan, approved in December 2024, shows the HRA can be viable, but the HRA will continue to require careful management and oversight and prioritisation of resources. The adjustment to recharges will significantly help the position in 2025/26.
- 4.3 A number of legacy adjustments have been made to the HRA during the course of the last 12–18 months and a detailed forensic review of the HRA has been commissioned to establish if there are any further matters to resolve, particularly in relation to expenditure incurred by the HRA in respect of the Sheerwater Regeneration project. This forensic review will report in the next financial year.
- 4.4 Explanations of the changes and pressures within the different elements of the budget are set out in the sections below.
- 4.5 A breakdown of the 2025/26 budget is included in Appendix 1 of the report. The HRA will be in balance next year with an estimated surplus of circa £0.967 million. This is an important step towards the longer-term stability of the HRA.

### **5.0 Options Considered**

- 5.1 The HRA Budget 2025/26 has considered various assumptions around income and expenditure, including rental increases and the scale of the 2025/26 capital programme. The HRA 2025/26 budget seeks to balance financial and service delivery risks (including regulatory compliance).

### 6.0 Forecast Outturn

- 6.1 Monthly budget monitoring is now in place to understand in-year budget variances. Adjustments to the revised estimates for 2024/25 have been made to reflect variations identified during the year to date.
- 6.2 At the end of Quarter 3, the HRA is forecast to overspend by £2.1 million. This is a movement of £0.271 million from the last quarter forecast. The breakdown of the variance from budget is detailed below.
- 6.3 The Supervision and Management budget is projected to exceed its budget by £0.608 million, primarily due to one-off expenditure related to Brockhill fire safety and evacuation costs, as well as home-loss and disturbance payments for Sheerwater. Additionally, there are overspends in the legal, subscriptions and temporary staff budgets. These additional costs are partially offset by anticipated underspends in energy and staffing expenses.
- 6.4 In addition, the HRA budget forecasts show under-recovery of £1.19 million in rental and service charge income due to under-estimation of the Sheerwater and Brockhill voids losses and service charges not fully recovering costs.
- 6.5 Overall, the HRA is projected to overspend by £2.09 million in 2024/25, leading to a year-end deficit of £1.13 million to be funded from reserves. Due to this forecast overspend, the planned contribution to reserves of £0.96 million will not be made in 2024/25 and HRA Reserves are forecast to be £0.144 million at the year-end (including a planned one-off addition of £0.780 million to adjust for prior year fuel cell charges being refunded and £0.460 million adjustment made for previous years interest on reserves balances).

### 7.0 Approach to Budget Setting 2025/26

- 7.1 Over the course of 2024/25, the Council has been working with external consultants to develop a 30-year Housing Revenue Account (HRA) Business Plan. The first plan was approved by Council in December 2024. The business plan is built on robust assumptions, informed by market knowledge and agreed with Council officers by the consultants.
- 7.2 The 2025/26 HRA budget set out in this paper has been developed using current budgets and forecasts, inflation assumptions and other inputs used in the development of the 30-Year HRA Business Plan. Since the draft 2025/26 HRA budget was presented to the Executive in December 2024, further work has been completed to validate these assumptions with budget managers to reflect the most up-to-date and detailed cost and income data.
- 7.3 The 2025/26 HRA budget is fully aligned with the strategic objectives outlined in the 30-year HRA Business Plan. It supports the financial framework and priorities established in the Business Plan, ensuring that resources are allocated effectively to meet the Council's housing goals. Whilst the opening position is worse than anticipated in the plan, the budget for 2025/26 broadly reflects key assumptions on income, expenditure, and capital investment necessary to maintain and enhance the housing stock. By incorporating the Business Plan's forecasts for inflation, rental

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income, and cost increases, the budget ensures continued financial stability while enabling the delivery of critical housing services, statutory requirements, and portfolio growth.

### Management and Administration

- 7.4 The HRA needs to target revenue savings in the order of £1m from 2025/26 to deliver a viable 30-year plan. Finance completed a detailed review of the recharge allocations across the Council during 2024. As part of this, the review considered recharges to the HRA to ensure that they were accurate, fair, and reasonable. The review identified that recharges to the HRA should be reduced by circa £1.41 million for 2025/26 following changes and reductions in the Council's structures and establishment.
- 7.5 Salary and other central costs have been allocated to the HRA in accordance with normal accounting rules to show the full cost of the service. The budgets are set and monitored in a pre-allocated format to make it possible to see the overall impact rather than just a proportion of the overall cost/variance which may be allocated to an individual service. Some staff posts are capitalised to delivery of the Housing Asset Management Plan.

### **8.0 Rent and Other Charges**

- 8.1 Under the Government's current rent-setting framework, social rents are permitted to increase by up to CPI + 1% annually. On 19 December 2024, the Regulator of Social Housing issued its annual rent limit guidance, which determines the rent adjustment for 2025/26. It confirmed that the Council will be able to increase rents in line with the Government's Rent Standard, applying the current CPI+1% cap.
- 8.2 The budgeted rents have been calculated based on this approach, reflecting a 2.7% increase (derived from the September CPI of 1.7%). Additionally, the Government has recently consulted on the potential implementation of a CPI + 1% rent increase for a five-year period (potentially longer), starting from 2026-27.
- 8.3 Total rent and service charge income is forecast at circa £23.4 million in 2025/26, after deductions for void losses. This is lower than budgeted in 2024/25 reflecting more accurate assumptions around service charge recovery and with the removal of rental income from Brockhill and some homes in Sheerwater. 2024/25 was also a 53-week year in terms of rent collection.

### Recovery of Charges

- 8.4 Service charges, including energy charges, have historically been based on the cost of the service being provided. The Section 151 Officer has delegated authority to vary service charges in line with external factors.
- 8.5 As shown in the forecast outturn, the Council is unlikely to be able to recover the full cost of services and therefore a more realistic assumption of service charge income has been incorporated in the 2025/26 draft budget.

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- 8.6 Energy charges are levied on a per block basis based on cost and likely recovery. This allows energy costs to be recharged to tenants on a more detailed basis. Further work is required on energy cost estimates and service charge setting, particularly in relation to projected electricity consumption (where there is a greater degree of uncertainty around budget assumptions).
- 8.7 The assumption is that any housing-related support charges cover the cost of this service.

### Implementation Date

- 8.8 The new rents, if approved by Council, will be applied from the first Monday in April (i.e. 7 April 2025).

## **9.0 Prudential Borrowing**

- 9.1 HRA interest charges for pre 2016/17 borrowing are fixed at the Council's average borrowing rate on 31 March 2016. HRA borrowing from April 2017 onwards are charged at the annual average 50-year PWLB borrowing rate. This ensures that General Fund investment decisions made by the Council do not impact the HRA.
- 9.2 Since the housing service returned in-house in April 2022, it has become clear that the Council's housing stock is in a poor condition and requires significant capital investment. In July 2023, the Council self-referred to the Regulator of Social Housing for potentially breaching the Homes Standard. Following ongoing engagement, the Council received a Regulatory Notice from the Regulator on 14 December 2023 for breaching the Homes Standard in respect of fire safety.
- 9.3 A 5-year Housing capital programme has been developed and incorporated into the HRA Business Plan, with a focus on fire safety remedial actions, Decent Homes improvements, heating upgrades and cladding works, with an estimated total value of approximately £71.9 million over the next 5 years. For 2025/26, a capital budget of around £16 million is assumed with a focus on continuing to address the fire safety remedial works, plus a further £4m for the acquisition of additional affordable homes funded through Section 106 receipts.
- 9.4 This represents a significant increase in the Housing capital programme, which has typically been around £4 million annually in recent years. However, for 2024/25, projected expenditure is anticipated to reach circa £10 million. The 2025/26 programme will be primarily financed through depreciation, Sheerwater capital receipts, historic capital receipts from Right to Buy sales and the sale of a small number of vacant HRA assets. The remaining balance of approximately £3.1 million will need to be funded through borrowing.
- 9.5 The updated forecast for HRA interest costs is £5.7 million in 2025/26.
- 9.6 A 100% stock condition survey is underway to understand the capital funding requirements to achieve 100% Decent Homes in future years. It is expected that future years will see a continued need for substantial capital investment in our Council homes and this work has been reflected in the updated 30-year HRA Business Plan.

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- 9.7 The 2025/26 draft budget makes no allowance for repayment of the debt taken on for Self-Financing or for the repayment of the borrowing relating to historic new build developments. The borrowing relates to long life assets which are fully maintained.

### 10.0 Robustness of the Budget and Risks

- 10.1 It is important to consider the robustness of the budget and the adequacy of reserves for the purpose of maintaining the financial health of the Housing Revenue Account.

#### HRA New Build Developments and Acquisitions

- 10.2 The HRA budget assumes there is no HRA borrowing for new build developments or acquisitions during 2025/26.
- 10.3 Any acquisitions will need to be funded through grants, Section 106 receipts and/or retained Right to Buy receipts as set out in the Capital Programme.

#### Repairs, Maintenance, and Management and Contractual Inflation

- 10.4 Housing Services were brought in house from 1 April 2022. The Council has various repairs and maintenance contracts in place and the draft budget assumes contractual inflation.
- 10.5 The total draft budget for repairs and compliance for 2025/26 is forecast at £5.5 million.

#### Major Repairs Contribution

- 10.6 In accordance with the 1 April 2017 Item 8 Determination, depreciation has been charged to the HRA starting from 1 April 2017, in line with proper accounting practices. This depreciation replaces the Major Repairs Contribution and is transferred to the Major Repairs Reserve, where it is used for capital works on the housing stock or to repay debt. HRA depreciation is calculated by dividing the total asset value of Council Dwellings by their average useful economic life.
- 10.7 The depreciation amount for 2025/26 is estimated at £4.1 million and will contribute towards funding the Housing Capital Programme (Annual Maintenance Plan) for that year, including capitalised staff costs.

#### Sheerwater Regeneration

- 10.8 In October 2023, the Council decided to retain and refurbish approximately 100 HRA homes that had previously been earmarked for demolition and redevelopment under the Sheerwater Regeneration project. As the timeline for bringing these homes back into use is still uncertain, the rental income projection for 2025/26 includes a cautious estimate around projected rental income from these homes.

#### Reserves and Balances

- 10.9 The Housing Revenue Account (HRA) is projected to achieve a surplus of £0.966 million in 2025/26, marking a significant step toward ensuring the long-term financial sustainability of the HRA. This budget broadly aligns with the updated 30-year HRA

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Business Plan and reflects the growth and savings projections outlined in the business plan, addressing both revenue and capital expenditure over the 30-year horizon.

- 10.10 Due to pressures arising in 2024/25 (as detailed in section 6 of this report), HRA reserve levels are forecast to reduce to £0.144 million at 31 March 2025. This level of reserves for a prolonged period is not sufficient to safeguard the financial viability of the HRA. Both the 2025/26 budget and the HRA Business Plan forecast for this balance to increase with savings being found from 2025/26 onwards.
- 10.11 The current estimated reserves position for 2025/26 is £1.11 million at 31 March 2026. Rebuilding reserves is an important step towards the longer-term stability of the HRA. This is consistent with the aim of moving towards a minimum working balance of £500 per unit, compared to £100-£150 historically.

### 11.0 Decision Type/Scope

- 11.1 This is considered a key decision, as the report seeks to approve the Housing Revenue Account (HRA) budgets and resources for 2025/26. In addition, the decision will set Council rents for next financial year.

### 12.0 Implications

#### Legal

- 12.1 The Council is required under S74 of the Local Government and Housing Act 1989 to maintain a Housing Revenue Account as it owns more than 200 units of housing stock. The items to be credited and debited to the HRA are prescribed by statute.
- 12.2 The Council is also required to account for income and expenditure incurred in relation to housing and other property provided under Part II of the Housing Act 1985.

#### Finance

- 12.3 The financial implications are explicit in the report.

#### Risks and Mitigation

- 12.4 Risks to budgets have been identified throughout the year and will be reported quarterly as part of the Council's Performance and Financial Monitoring process. Specific risks have been set out in the report and are also detailed in the 30-Year HRA Business Plan.
- 12.5 The 2025/26 HRA budget has been prepared at a time where there continues to be uncertainty around local and national matters that could impact the HRA, including:
- Government policy changes, including on national rent policy and Right to Buy;
  - Decline in rental income due to cost of living crisis;
  - Pay award for 2025/26 is not yet confirmed;

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- Capital receipts not being realised and/or delayed, requiring additional borrowing and interest charges;
- Interest rates remain higher than expected;
- Housing Improvement Programme may require additional resources that are not currently included in 2025/25 draft budget.

### Consultation, Equality Impact Assessments

- 12.6 An HRA business plan and budget update was presented to the Resident and Landlord Partnership in January 2025.
- 12.7 At its meeting on 11 December 2024, the Communities and Housing Scrutiny Committee considered the report on the 30 Year Housing Revenue Account Business Plan.
- 12.8 The Scrutiny Committee noted the interest rates and the volatility in them and recommended that, in their regular reviews of the HRA Long Term Business Plan, the Executive should pay particular attention to interest rates and review the Plan based on that information.
- 12.9 The Leader of the Council was present at the Communities and Housing Scrutiny Committee and supported the proposal.
- 12.10 The Council approved the 30 Year HRA Business Plan at its meeting on 12 December 2024 and noted and supported the recommendation of the Scrutiny Committee.

### Environment and Climate Change

- 12.11 No specific implications identified at this time.

## **13.0 Supporting Documents**

### Appendices

- 13.1 Appendix 1 – HRA Budget 2025/26

### Background Documents

- 13.2 None.

**Report Ends**