

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**CABINET – THURSDAY, 9 JANUARY 2025**



<b>Title of Report</b>	<b>DRAFT HOUSING REVENUE ACCOUNT BUDGET AND RENTS 2025/26</b>	
<b>Presented by</b>	Councillor Andrew Woodman Housing, Property & Customer Services Portfolio Holder PH Briefed <input type="checkbox"/> Yes	
<b>Background Papers</b>	<b>Council 22 February 2024:</b>	<b>Public Report:</b> Yes
	<a href="#">Housing Revenue Account (HRA) Budget and Rent Setting 2024/25</a>	<b>Key Decision:</b> Yes
<b>Financial Implications</b>	This report sets out the draft Housing Revenue Account (HRA) budget including both capital and revenue for the period 2025/26 to 2029/30.  It also sets out the proposed increase in rents along with other planned changes to the fees and charges levied by the Council for some services delivered within the scope of the HRA.	
	<b>Signed off by the Section 151 Officer:</b> Yes	
<b>Legal Implications</b>	No direct legal implications arising.	
	<b>Signed off by the Monitoring Officer:</b> Yes	
<b>Staffing and Corporate Implications</b>	No direct Staffing and Corporate implications arising.	
	<b>Signed off by the Head of Paid Service:</b> Yes	
<b>Purpose of Report</b>	This report seeks Cabinet approval to consult on the draft Housing Revenue Account budget and Rents for 2025/26 and the proposals contained within. The results of this consultation will be incorporated into future reports to the Cabinet and Council, aiming to secure approval for the final budget in February 2025	
<b>Reason for Decision</b>	Required as part of the budget setting process for 2025/26.	

<b>Recommendations</b>	<p><b>THAT CABINET PROPOSES THE FOLLOWING FOR CONSULTATION:</b></p> <ul style="list-style-type: none"> <li>• <b>DRAFT 2025/26 HOUSING REVENUE ACCOUNT BUDGET</b></li> <li>• <b>RENT INCREASE 2025/26</b></li> <li>• <b>DRAFT MTFP FOR THE PERIOD 2025/26 TO 2029/30</b></li> <li>• <b>DRAFT 2025/26 HRA BUDGET PROPOSALS</b></li> <li>• <b>DRAFT 2025/26 HRA FEES AND CHARGES</b></li> </ul> <p><b>AS CONTAINED WITHIN THIS REPORT.</b></p>
------------------------	---

## **1.0 BACKGROUND AND DISCUSSION**

1.0.1 The Housing Revenue Account (HRA) Medium Term Financial Plan (MTFP) sets out the financial strategic direction for the HRA and is updated as it evolves and develops throughout the year, to form the framework for financial planning.

1.0.2 The purpose of the HRA MTFP is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are effectively managed and are able to deliver the aspirations of the Council, as set out in the Council Plan, over the medium term.

### **1.1 Context**

1.1.1 The Council is setting the HRA budget at a time when the council and its residents face a range of issues to contend with. In broad terms, these can be split into two categories: economic and housing. Each of these is explored below:

#### **1.2 Economic**

1.2.2 The recent report by the Office of Budget Responsibility (OBR) in respect of the Economic and Fiscal Outlook describes how the economy has proved to be more resilient, having stagnated last year, the economy is expected to grow by just over 1% this year, rising to 2% in 2025. Before falling to around 1.5%, slightly below its estimated potential growth rate of 1.6% over the remainder of the forecast.

1.2.3 Inflation is expected to rise by CPI inflation by around 0.5% percentage point, meaning it is projected to rise to 2.65% in 2025. And gradually fall back to target.

#### **1.3 Housing**

1.3.1 In response to the government Devolution revolution strategy, mayors will get unrepresented powers to drive growth, turbo charge housebuilding and improve transport in a transformative fashion. The government published its English Devolution White paper on 16 December 2024. It put English regions centre stage in the government's plan for change with a mission to grow the economy, delivering the 1.5m homes and infrastructure.

1.3.2 Recognising the wider context within which the budget is being set, the Council has made improvements to financial management in the last 12 months and has continued to use processes to develop its draft budget plans for 2025/26 and over the medium term. This recognises the greater focus within the organisation on its finances. The

process, coupled with that used in previous years, has involved:

- Services completing budget proposals to justify the need for any changes to the budget.
- Budget STAR Chamber sessions between Directors and Heads of Service
- Regular reporting to the Corporate Leadership Team on the Council's overall budget position
- Engagement with councillors through Portfolio Holder briefings, Strategy Group and an all-councillor budget briefing. Further engagement is planned through scrutiny, consultation with the public and the HRA tenants' forum.

## **1.4 Budget Assumptions**

1.4.1 The following budget assumptions have been built into the forecast:

- Pay award
  - 2024/25 – additional 1%, increasing from 3% to 4%
  - 2025/26 – additional 1%, increasing from 2% to 3%
  - 2026/27 onwards to remain as 2%
- Each budget line for the HRA has been reviewed to reflect the forecast actual value for future years, considering contract values, expected activity levels and previous years' expenditure with inflation added, as per contracts.
- Staffing requirements have been considered to ensure the delivery of an effective housing service with the best outcomes for tenants.
- Contracts have been linked to the Consumer Price Index (CPI)/ Retail Price Index (RPI) as per individual agreements.
- Inflation – fuel and utilities inflation are very volatile. After reviewing the current prices and future indications based on the best information available, and allowing for reviewing utility contracts, a minimal level of inflation has been included.
- Fees and charges have been increased by inflation and where appropriate, these have been considered where demand has changed (see section 2.4 for more detailed information on fees and charges).
- Rents are assumed to increase, as per the rent standard, at the 12-month CPI from September 2024 which was 1.7% plus 1%, giving a total increase of 2.7%.
- The number of properties sold through Right to Buy is assumed to increase from previous years' estimate of 16 to 75 for the current year (2024/25) then reducing each year thereafter. Higher numbers of homes have been sold through Right to Buy in the current financial year due to the reduction in the right to buy discount that the government introduced in the recent budget in 2024.
- Future borrowing is assumed to cost 5.05% in interest.

## **2.0 HOUSING REVENUE ACCOUNT BUDGET AND MTFS 2025/26 to 2029/30**

### **2.1 HRA Budget Summary**

2.1.1 Appendix 1 shows the HRA budget position for 2024/25 and the budget for 2025/26 to 2029/30.

2.1.2 Table 1 below shows that in 2025/26 the budgeted net operating expenditure has reduced by £1.115m compared to 2024/25 whilst the anticipated income has decreased by £592K.

**Table 1: Changes to the Housing Revenue Account budget from the previous year**

	2024/25	2025/26	Movement
	£'000	£'000	£'000
Income	(21,613)	(21,020)	592
Operating Expenditure	20,168	19,053	(1,115)
<b>Operating (surplus)/deficit</b>	<b>(1,445)</b>	<b>(1,968)</b>	<b>(523)</b>
Appropriations	4,063	1,906	(2,157)
<b>Net (surplus)/deficit</b>	<b>2,618</b>	<b>(62)</b>	<b>(2,680)</b>

2.1.3 The appropriations in the table are the use of the HRA working balance to fund the capital programme as well as contributing to the loan repayment reserve. These appropriations are significantly lower in 2025/26 as the HRA balance has a lower capacity to fund capital.

## 2.2 Rents

2.2.1 As a self-financing account, the HRA's main source of income, the rent tenants pay for their homes. From 2016/17 to 2020/21 the Welfare Reform Act (2016) required all social rents to be reduced by 1% each year. This negatively impacted on the budget and the Council's ability to fund improvements. In 2023/24 a rent cap was imposed which capped rent increases at 7%.

2.2.2 For 2025/26, the Council proposes to increase the rent by 2.7%, which is in line with the Rent Standard of CPI +1% for 2025/26. (The rent standard is a policy that registered providers of social housing in England must comply with and is overseen by the Regulator of Social Housing). The increase is expected to result in a total rental income of £21.02 million in 2025/26.

2.2.3 The average annual rent for Social and Affordable Rent properties in 2025/26 is £5,163.15 and £7,107.50 respectively (2024/25: £5,009.29; £6,480.83). The average weekly rent in 2025/26 is £103.26 and £142.15 for Social and Affordable rent respectively, (2024/25: £100.19; £129.62, respectively) which is an increase of £3.07 and £12.53 per week. Those tenants who are more vulnerable are protected via increases in their benefits above this level, meaning that the worst off in the district will not be negatively impacted.

## 2.3 Budget Proposals

2.3.1 Appendix 2 summarises the most significant proposed changes to the HRA budgets. Looking at 2025/26 specifically, the total budget proposals of £420K include:

- **Net decrease in income totaling £600K.** This is largely due to the RTB sales and voids.
- **Repairs and maintenance savings of £1.3m.** Due to the reduction of staffing cost

due to changes in the use of contractors and the Council's internal repairs team.

- **Pay-related increased costs** of £214K is due to £120k of budget proposals, to ensure compliance with new Consumer Standards, with the rest being the additional increase in pay award in both 2024/25 and 2025/26.

## **2.4 Fees and charges**

2.4.1 In addition to the rental charges for dwellings, there are several other fees and charges in relation to services provided within the HRA. Some properties have service charges, on top of the rent, to pay for specific services relevant to their properties. The proposed fees and charges for 2025/26 are listed in Appendix 3. Most service charges increased by 1.7%, (September CPI) in line with the corporate charging policy.

### 3.0 HRA CAPITAL PROGRAMME 2025/26 TO 2029/30

3.1.1 The proposed HRA capital programme is outlined in Appendix 4. The Council has continued to ensure governance improvements by strengthening the Capital Strategy for managing the capital programme through its life cycle. The capital programme has been split into Active and Development Pool to allow development schemes in the early stages to go through further governance before being allocated an appropriate budget for each stage of development. A summary of the capital programme is shown in Table 2 below.

**Table 2: Summary Capital Programme**

	<b>2025/26 Budget £'000</b>	<b>2026/27 Indicative £'000</b>	<b>2027/28 Indicative £'000</b>	<b>2028/29 Indicative £'000</b>	<b>2029/30 Indicative £'000</b>	<b>Total £'000</b>
Stock Investment	9,715	9,715	9,465	6,715	6,715	42,325
Estate Improvements	500	500	500	500	500	2,500
Fleet Replacement	100	300	0	0	0	400
Other Capital	2,250	1,550	1,400	800	800	6,800
<b>Total Approved Programme</b>	<b>12,565</b>	<b>12,065</b>	<b>11,365</b>	<b>8,015</b>	<b>8,015</b>	<b>52,025</b>
<b>Total Development Pool</b>	<b>3,013</b>	<b>3,066</b>	<b>4,433</b>	<b>1,396</b>	<b>4,189</b>	<b>16,097</b>
<b>Housing Revenue Account Total</b>	<b>15,578</b>	<b>15,131</b>	<b>15,798</b>	<b>9,411</b>	<b>12,204</b>	<b>68,122</b>

3.1.2 Over the five-year period, the total programme totals £68.122m, an increase of £1.897m over the previous five-year programme. The difference is due to a reduction of £1.6m in the Development pool (New Supply) and the approved programme has a net increase of £3.5m mainly due to Major Aids and Adaptation within the Other Capital programme.

- **New Supply:** The programme has been extended to include sites being initially developed by registered providers.
- **Home Improvement Programme:** The backlog of work is on-going, and a budget has been made available for this within the capital programme.

3.1.3 Work has commenced on a revised Asset Management and Business Plan for the HRA. This will continue in 2025/26 and will inform the future programming of the HRA in future years.

### 3.2 Funding the Capital Programme

3.2.1 The capital programme is funded by a variety of sources, including revenue, grants, capital receipts and borrowing. Table 3 below summarises the funding sources identified for each year of the proposed HRA capital programme.

**Table 3: Sources of funding for the Capital Programme**

	<b>2025/26 Budget £'000</b>	<b>2026/27 Indicative £'000</b>	<b>2027/28 Indicative £'000</b>	<b>2028/29 Indicative £'000</b>	<b>2029/30 Indicative £'000</b>	<b>Total £'000</b>
Reserves	3,883	3,877	4,438	3,705	3,809	19,712
Capital Receipts	3,965	1,500	1,500	1,500	1,500	9,965
RTB Receipts	1,204	1,071	938	849	761	4,823
Revenue contributions	616	623	62	795	692	2,788
External Borrowing	1,909	8,060	8,860	2,562	5,443	<b>26,834</b>
Grants	4,000	0	0	0	0	4,000
<b>Housing Revenue Account Total</b>	<b>15,578</b>	<b>15,131</b>	<b>15,797</b>	<b>9,411</b>	<b>12,204</b>	

3.2.2 Table 3, above, shows a borrowing requirement of £26.8m (2024/25: £27.9m) over five years to fund the programme. This is a reduction of £1.134m when compared to the five-year plan for 2024/25. This is due to the increased usage of reserves to fund projects.

#### **4.0 DEBT**

4.1 The loan balance for the HRA is forecast to be £50.9m at the end of 2024/25. There are annuity loan repayments of approximately £1.3m to make each year, these repayments are usually funded from working balances but once working balances reach the £1m minimum, they will be funded from other capital resources.

4.2 There are also loans to be repaid at maturity. The next of these to repay is a £10m repayment in 2036/37. In accordance with the strategy agreed in 2012, when self-financing for the HRA was introduced, the Council sets aside funding each year in a Debt Repayment Reserve to ensure there is sufficient funding to repay debt when it matures. The budget assumes £2.7m is set aside in 2025/26 from the HRA to make the scheduled repayments at maturity, this increases each year as there is further borrowing to finance the capital programmed (shown in Table 4).

4.3 The HRA business plan is to be reviewed during 2025/26, and it will be investigated whether the approach of using a debt repayment reserve presents the best approach for a well-funded HRA and best use of resources. The findings will be presented to Scrutiny and Cabinet.

#### **5.0 RESERVES**

5.1 The Council has several reserves for the use of the HRA. Most of the reserves are used for capital financing. Table 4 below shows the projected reserve balances over the MTFP period.

**Table 4: Reserve balances**

Reserve	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	£000	£000	£000	£000	£000
Major Repairs Reserve	4,162	4,399	4,545	4,719	4,888
Capital Receipts	5,410	5,446	5,393	5,279	5,106
Debt Repayment Reserve	3,357	5,945	8,936	12,370	15,932
<b>Total Capital Reserves</b>	<b>12,929</b>	<b>15,790</b>	<b>18,874</b>	<b>22,368</b>	<b>25,926</b>
HRA Reserve	1,000	1,000	1,000	1,000	1,000
Earmarked Reserves	115	0	0	0	0
<b>Total Revenue Reserves</b>	<b>1,115</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

## 6.0 KEY RISKS TO THE BUDGET

6.1 Table 5 provides an assessment of the key risk areas to determine the robustness of the estimates and adequacy of reserves included in the HRA budgets:

**Table 5: Key Risks to the Budget**

Area	Y/N	Comments
Is performance against the current year's budget on track and where variances are evident, ongoing and unavoidable, are they appropriately reflected in the plans?	Y	The 2024/25 financial monitoring is showing a projected underspend of £1m on the HRA. This is mainly due to staff vacancies and the overachievement of income due to the reductions in voids. However, there are some costs for the housing systems that have not been interfaced into the main financial systems. Hence, a further deep dive is required to verify the underspend.
The reasonableness of the underlying budget assumptions	Y	External review has also been undertaken by the treasury advisers, Arlingclose on the Treasury Management Strategy.



Area	Y/N	Comments
The alignment of resources with the Council's service and organisational priorities	Y	Resources are aligned to the current priorities of the Council. The latest Council Delivery Plan (CDP) was approved by Council on 14 November 2023. The CDP is aligned to the resources available and risks faced by the Council.
A review of the major risks associated with the budget	Y	The major risks within the budget have been assessed and are set out in the budget report, including mitigations and strategies about how these are being managed.
The availability of unearmarked reserves to meet unforeseen cost pressures	Y	The Council has a minimum level of reserves for HRA (£1m). This level is to be reviewed as part of the HRA business planning process.
Have realistic income targets been set and 'at risk' external funding been identified?	Y	An assessment of income targets has been undertaken as part of the development of the draft budget. The most significant area of income is from dwelling rents. The budget for this is produced with reference to current stock levels and expected stock loss, reconciling data and changes from the previous year to the current year. Fees and charges have been increased, where it is appropriate to do so, in accordance with the Council's Corporate Charging Policy.
Has a reasonable estimate of demand and cost pressures been made?	Y	The development of the draft budget has improved the reasonableness of estimates.
Has a reasonable estimate of future income been made?	Y	The budget proposals presented by services were reviewed by finance and subject to budget challenge sessions.
Have one-off cost pressures been identified?	Y	All pressures have been reviewed to assess if they are one-off or ongoing in nature. Services will need to ensure exit plans exist for one-off expenditure.

Area	Y/N	Comments
Are arrangements for monitoring and reporting performance against the budget plans robust?	Y	<p>For 2024/25, quarterly financial reporting to Cabinet and Scrutiny Committee has been introduced. There is a new finance system, which is intended to bring enhanced financial reporting for budget holders to support robust and regular monitoring of budgets.</p> <p>The Council will also need to enhance its development, monitoring and delivery of its plans to deliver balanced budgets over the medium term.</p>
Is there a reasonable contingency available to cover the financial risks faced by the Council?	Y	The Council has incorporated estimates for pay award, inflation and demand pressures into its budget. It has also made provisions for key income streams not materialising for business rates and council tax.
Is there a reasonable level of reserves, which could be used to mitigate any issues arising and are they reducing as the risks decrease?	Y	The Council has a range of earmarked, MTFP and minimum levels of reserves to ensure its financial stability.
The strength of the financial management function and reporting arrangements?	Y & N	The Council implemented a new financial system in April 2023 to improve its reporting. Further enhancements to the system are required in the short-term to deliver this. A review of the Financial Procedures Rules is planned.
Have the previous year's Accounts been signed off by external audit to verify balances?	N	The Council's Accounts for 2022/23 have been approved by Audit and Governance Committee. The audit completion date for the 2023/24 final account has not been set. Budget estimates and reserves balances for 2024/25 and beyond are based on the latest information incorporated into the 2022/23 and 2023/24 accounts.

Area	Y/N	Comments
Has there been a degree and quality of engagement with colleagues and councillors in the process to develop and construct the budget?	Y	There has been a continuation of the improvements introduced to the budget setting process last year. This has included a series of budget challenge sessions between the Directors and Heads of Service, as well as engagement with Corporate Leadership Team, Portfolio Holders, Strategy Group and an all-councillor briefing.

## 7.0 CONCLUSIONS AND NEXT STEPS

- 7.1 Based on the assumptions made for the HRA in the Draft Budget 2025/26 and MTFP for 2025-30 for income and expenditure, the Council can set a balanced HRA budget for 2025/26 and indicative budgets to 2029/30.
- 7.2 There is still further work to be carried out between the draft and final budget position to make any further changes to budget proposals, further detailed work on net financing costs, capital financing, ensuring the minimum balance for the HRA is maintained and technical finance work around recharges. There will also be equality impact assessments carried out during this period.
- 7.3 Shown below in Table 5 are the key deadlines and meetings Finance are working towards in the budget approval cycle:

**Table 5: Budget Timetable**

Key Meetings in Budget Approval Cycle	Date
Corporate Scrutiny Meeting - to consider the draft budget proposals	07/01/2025
Cabinet Meeting - to consider the draft budget and approve the consultation launch	09/01/2025
Commencement of consultation	13/01/2025
End of consultation	26/01/2025
Cabinet Meeting – to consider consultation responses and recommends final budgets and council tax to Council	28/01/2025
Council – approval of the revenue and capital budgets for the General Fund, Housing Revenue Account (HRA) and Special Expenses and sets the Council Tax	20/02/2025

- 7.4 The timelines in the table above show that public consultation runs from 13 January to 26 January 2025 and responses will be fed back to Cabinet on 28 January 2025 when a final budget will be recommended.

## **8.0 EXEMPTION FROM CALL IN**

- 8.1 The approval of the Chairman of the Council has been given to the exemption of the Council's Scrutiny Procedure rules in relation to the call-in of the decision on this item, since any call-in would prejudice the ability of the Council to commence the statutory consultation period commencing 13 January 2025. The Chairman has considered the timetable for the consultation period and agrees that the matter before Cabinet is urgent for this reason.

<b>Policies and other considerations, as appropriate</b>	
Council Priorities:	The budget provides funding for the Council to deliver against the priorities for the HRA.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	The equality impact assessment will be completed for the final budget to be presented to Cabinet.
Customer Impact:	Customers are likely to be impacted by the changes to rents and fees and charges.
Economic and Social Impact:	The HRA capital programme allocates £22.5m over five years to improve homes, and £16m on new homes to give homes to more people.
Environment and Climate Change:	The budget includes a capital programme of Zero Carbon works for dwellings worth £15m.
Consultation/Community Engagement:	Corporate Scrutiny Committee 7 January 2025 Public consultation - 13 January to 26 January 2025 Parish and town councils, trade unions and the Federation of Small Businesses - 13 January to 26 January 2025. Tenants and Leaseholders Consultation Forum – date to be confirmed. The results of the above consultations will be detailed in the final report.
Risks:	The budgets will be monitored throughout the year to ensure the Council remains within its funding envelope and planned budget savings are delivered. Key risks to the budget are discussed in further detail in section 5 of the report.
Officer Contact	Anna Crouch Head of Finance and Section 151 Officer <a href="mailto:anna.crouch@nwleicestershire.gov.uk">anna.crouch@nwleicestershire.gov.uk</a>