

Joint report of the Portfolio Holder for Resources and Personnel Policy and the Portfolio Holder for Housing

Housing Revenue Account – Medium Term Financial Strategy and Budget Action Plan

1. Purpose of report

This report presents an update on the newly developed Housing Revenue Account (HRA) Medium Term Financial Strategy and to highlight the key actions that will be necessary to improve the HRA financial position back above the minimum recommended level. This is in accordance with the Council's key priority of Housing – a good quality home for everyone.

2. Recommendation

Cabinet is asked to NOTE the Housing Revenue Account Medium Term Financial Strategy and the associated budget action plan.

3. Detail

As reported to Cabinet on 30 June 2026, there was a £276k overspend on the Housing Revenue Account (HRA) budget in 2025/56. This overspending when compared to the revised estimates increased the anticipated deficit on the HRA Working Balance which amounted to £946k as at 31 March 2026. With the budget deficit being higher than anticipated, the HRA Working Balance dipped below the Section 151 Officer's minimum recommended level of £1 million.

The outturn position was a result of an accumulation of rising costs over several years and lower than anticipated rent incomes being received in 2025/26. Whilst there is no specific statutory minimum working balance, and a dip below the minimum recommended balance can be tolerated in the short-term, sustained efforts are needed to bring the working balance back up above £1 million.

The Medium-Term Financial Strategy (MTFS) is a key financial planning document. A new HRA MTFS has been developed for this purpose, which will complement the long-term HRA 30 Year Business Plan. The MTFS shows that, in addition to maximising opportunities with regards to growth and implementing rent increases in line with Government expectations, several further initiatives will need to be pursued in 2026/27 and 2027/28 to reduce costs, generate additional income and/or improve services for tenants. Further narrative is provided in the **Appendix**.

4. Key Decision

This report is not a key decision.

5. Updates from Scrutiny

The business and financial plans will be considered by the Overview and Scrutiny Committee on 18 and 19 January 2027.

6. Financial Implications

The comments from the Deputy Chief Executive and Section 151 Officer were as follows:

The financial implications are included in the report narrative and appendices.

7. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

There are no direct legal implications that arise from this report.

8. Human Resources Implications

There were no comments from the Human Resources Manager.

9. Union Comments

There were no Union comments in relation to this report.

10. Climate Change Implications

The Council's response to Climate Change is a key consideration as part of the budget setting process.

11. Data Protection Compliance Implications

This report does not contain any [OFFICIAL (SENSITIVE)] information and there are no Data Protection issues in relation to this report.

12. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

13. Background Papers

Nil.

Appendix 1

Housing Revenue Account (HRA)**1. Introduction**

There was a £276k overspend on the Housing Revenue Account (HRA) budget in 2025/26. This overspending, when compared to the revised estimates, increased the anticipated deficit on the HRA Working Balance which amounted to £946k as at 31 March 2026. With the budget deficit being higher than anticipated, the HRA Working Balance dipped below the Section 151 Officer's minimum recommended level of £1 million.

The outturn position was a result of an accumulation of rising costs over several years and lower than anticipated rent incomes being received in 2025/26. Whilst there is no specific statutory minimum working balance, and a dip below the minimum recommended balance can be tolerated in the short-term, sustained efforts are needed to bring the working balance back up above £1 million.

2. Spending – Budget Pressures

There continues to be significant budget pressures in terms of legislation changes, standards and compliance and the wider fiscal environment that will continue to impact upon the HRA's 2026/27 forecasted position and the 2027/28 budget. These include establishment costs (pay awards, earlier increases in National Insurance contributions and pension contributions) and price inflation on energy, fuel, construction, property and other commodities.

There is also added budget pressures in terms of compliance works, new legislation requirements, and the costs associated with damp and mould and housing disrepair claims.

There are also other fiscal pressures with the cost of borrowing and rising interest rates. This is not only impacting on current and future prudential borrowing to support the HRA's capital investment programmes but also increases refinancing risks with the maturity of significant loans relating to the 2012 Housing Finance Reforms.

3. Income – Dwelling Rents

The previous government announced that rents can be increased by CPI plus 1% each year from 2020/21 for the following five years. This assumption was reflected in the earlier update of the financial model that accompanies the 30-year HRA Business Plan.

The social housing rent cap for 2026/27 was 4.8%, based on the government's formula of the Consumer Price Index (CPI) in September 2025 plus 1%. Although this guidance may be subject to change and there has not been any government announcement yet for 2027/28, the latest guidance published in April 2026 indicated that this arrangement would be in place for 10 years.

4. Budget Action Plan

In order to maintain a sufficient balance on the HRA, it has been necessary to reduce costs or increase income. Alternative strategies have previously been considered and developed, including changes in other sources of income, such as garage rents and leaseholder charges, reduction in costs for example with returning to an in-house provision for voids works and electrical testing and the re-phasing of planned capital expenditure over the lifetime of the plan.

The HRA faces some unique challenges in this regard. As a 'ring-fenced' fund, it has limited revenue raising capabilities, which are mostly from dwelling rents. There is a need to adequately maintain the quality of the housing stock to ensure compliance with legislation and to meet Decent Homes standards. There is also a priority to respond quickly and appropriately to the findings of the Regulator of Social Housing inspection. Housing and the HRA also needs to be robust and sustainable to meet the current and future of social housing needs and the expectations of tenants.

A strategy has been identified for replenishing the HRA Reserve, with a view to recovering the balance back above £1 million at the earliest opportunity and then providing a sustainable and improving financial position into the medium-term. It remains key for resources to be aligned to key priorities, particularly linked to compliance with legislation and improving services for tenants.

Senior management are working through the following plan for this purpose, with the key activity including:

- Horizon scanning and risk management.
- Refreshing the HRA 30-Year Business Plan, in conjunction with independent financial advisors.
- Developing a Medium-Term Financial Strategy (MTFS) for the HRA, with the aim of bridging the gap between the long-term Business Plan and the annual budget.
- Undertaking a targeted efficiency review of all cost budgets to ensure funding adequacy and value for money. This will include the establishment, supplies and services, contracts, internal charges (including fleet vehicle costs, grounds maintenance and management costs), and the revenue implications of the capital programme.
- Looking to maximise income opportunities to include:
 - Growing the rents 'baseline' by aiming to achieve a net increase in the housing portfolio, supported by the Housing Delivery Programme.
 - Fully utilising the allowable uplift in dwelling rents, in line with government guidance on social housing rents (which in recent years has been at September CPI +1%). These projected uplifts would still see the Council's rents amongst the lowest rents in the region.

- Reviewing other revenue income streams, including the need for any recharges to leaseholders to be based upon full cost recovery.
- Reviewing the level of service charges to tenants to ensure these are appropriate and more aligned with costs.
- Identifying and submitting funding bids to support HRA capital investment (e.g. Homes England).
- Developing effective partnerships and networks with other housing providers, developers etc. to identify best practice and efficiencies.

5. Medium-Term Financial Strategy (MTFS)

The MTFS is a key financial planning document and a new MTFS has been developed for the HRA to complement the long-term 30 Year Business Plan.

The updated MTFS for the HRA is provided further below. It assumes modest increases in HRA spending plans for future years, although some growth has been made for developments and inflationary pressures on the short-term. The assumptions include maximising uplifts in dwelling rents (currently CPI +1%) which assumes a 4.5% uplift for 2027/28 and 3% thereafter). It also assumes that the 'rent baseline' will grow by 0.5% per annum, which equates to a new increase of 20 units each year.

In terms of costs, pay inflation is assumed at 3% for 2027/28 and 2% thereafter. Energy prices are estimated at 5% for 2026/27 and 2027/28, with other price inflation capped at 1% to challenge budget managers to deliver within existing resources. Dwelling values are estimated to grow at 3% each year, which will increase the statutory depreciation charge to the HRA. This sum is transferred to the Major Repairs Reserve to be utilised for capital expenditure purposes).

Uplifts in borrowing costs are based upon existing levels of prudential borrowing in the capital programme, with an averages HRA rate at 4.5%. This rate has also been applied for any maturing HRA loans that will need to be rescheduled at current rates.

The MTFS shows that, in addition to maximising opportunities with regards to growth and implementing rent increases in line with Government expectations, several further initiatives will need to be pursued to make efficiencies, reduce costs and generate additional income. **Budget efficiencies totalling £50k in 2026/27 and then £300k in 2027/28 will be needed to enable the HRA Reserve to return onto a more sustainable footing about the recommended minimum balance of £1 million.** The earlier that these efficiencies are found and secured, the better their impact in the medium-term.

The MTFS suggests at this stage that it is unlikely that the HRA balance can be returned above £1 million in this financial year. A more realistic target is that this can be achieved in 2027/28 and be firmed up as part of budget setting.

HRA MTFS Financial Projections 2026/27 to 2030/31

	Revised Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000	Estimate 2029/30 £'000	Estimate 2030/31 £'000
NET BUDGET	145	131	(283)	(298)	(310)
CHANGES TO EXPENDITURE BUDGET					
Revenue Developments	20	20	-	-	-
Inflation – Pay Award/JE Outcomes	16	165	113	116	118
Inflation – Energy and Fuel Prices	Included	9	8	8	8
Inflation – Price Others	Included	120	108	110	94
Depreciation Charges – Dwellings	Included	173	178	184	189
Changes to Interest on Borrowing	Included	529	405	422	401
CHANGES TO INCOME BUDGETS:					
Rents Increase (Uplift))	Included	(1,000)	(697)	(718)	(740)
Rents Increase (Growth)	Included	(111)	(116)	(120)	(123)
Recharges including Leaseholders (Uplift)	Included	(4)	(4)	(4)	(4)
Other Recharges to GF/Capital (Uplift)	Included	(15)	(10)	(10)	(11)
Item 8 HRA Interest Receivable	Included	-	-	-	-
Business Strategy	(50)	(300)	-	-	-
REVISED NET BUDGET	131	(283)	(298)	(310)	(378)
FORECAST BALANCES - 31 MARCH					
HRA Opening Balances	945	814	1,097	1,395	1,705
In-year Net Movement	131	(283)	(298)	(310)	(378)
HRA Closing Balances	814	1,097	1,395	1,705	2,083

6. Capital Programme

In terms of capital investment, Officers will review the timing of the replacement programme to ensure that its is compliant and affordable. Some improvement works may be rescheduled and/or reprioritised, if appropriate, which could allow for some revenue savings relating to prudential borrowing.

There is regular capital update reports provided to General Management Team and Members on progress with the approved capital programme. This occasionally includes capital budget variation reports to Cabinet as required.

All new borrowing on HRA schemes, including that on the Housing Delivery Programme, needs to be prudential, affordable and sustainable. Any new scheme which requires prudential borrowing will be subjected to stringent review and will need to have a robust and supported business case before progressing. The base budget currently includes the anticipated borrowing costs for the existing capital programme.

The Council will continue to strive to make the most of funding opportunities available for both capital investment projects and ongoing revenue costs.

7. Local Government Reorganisation

The HRA Medium-Term Financial Strategy has not taken any account of the impact of LGR. The projected end date of this latest MTFS may extend beyond the potential start date for any new unitary authority.