Brighton & Hove City Council

Cabinet

Agenda Item 158

Subject: **Housing Revenue Account**
Budget & Capital Investment Programme 2025-26 and Medium-Term Financial Strategy

Date of meeting: **Cabinet:** **Thursday, 13 February 2025**
Budget Council: **Thursday, 27 February 2025**

Report of: **Cabinet Member for Housing & New Homes**

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Ward(s) affected: (All Wards);

Key Decision: Yes

Reason(s) Key: Expenditure which is, or the making of savings which are, significant having regard to the expenditure of the City Council's budget, namely above £1,000,000 and Is significant in terms of its effects on communities living or working in an area comprising two or more electoral divisions (wards).

For general release

1. Purpose of the report and policy context

1.1 This report presents the proposed Housing Revenue Account (HRA) revenue and capital budget for 2025/26 as required by the Local Government & Housing Act 1989. Cabinet is required to consider the revenue budget proposals, including provision for service pressures, changes to rents, fees and charges, together with the HRA capital programme. These investments support the council plan outcome of delivering the fair and inclusive city, goal of Homes for Everyone, This report also sets out a forecast Medium-Term Financial Strategy and a 30-year financial projection.

1.2 The HRA contains the income and expenditure relating to the council's social landlord duties covering 12,145 rented properties and 2,210 leasehold properties as at January 2025. The HRA is a ring-fenced account within the General Fund that covers the management and maintenance of council-owned housing stock. This must be in balance, meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.

1.3 Although the HRA is not subject to the same funding constraints as the General Fund, it is a ring-fenced account within the General Fund and still follows the principles of value for money and equally seeks to improve efficiency and achieve cost economies wherever possible. Benchmarking of both service quality and costs with comparator organisations is used to identify opportunities for better economy, efficiency, and service delivery.

2. Recommendations

That Cabinet:

2.1 Approves a rent increase of 2.7% in line with government legislation as detailed in paragraph 3.12 of the report.

2.2 Approves the service charges and fees as detailed in Appendix 2 to the report.

2.3 Notes the 5-year capital programme as set out in Appendix 3 to the report.

2.4 Notes the Medium-Term Financial Strategy (MTFS) and 30-year financial projections shown in Appendix 4 to the report.

2.5 Notes and recommends to Full Council for approval the HRA Revenue Budget for 2025/26 as outlined in table 1 of the main report and Appendix 1.

2.6 Notes and recommends to Full Council for approval the new Capital Programme Budget of £77.765m for 2025/26 be agreed as part of the revised capital budget of £111.098m (which includes reprofiles of £33.333m from 2024/25).

2.7 Notes and recommends to Full Council approval of the earmarking of £1m reserves against disrepair claims for 2025/26.

2.8 Notes and recommends to Full Council for approval the 5-year capital programme as set out in Appendix 3 to the report.

That Full Council:

2.1 Approves the HRA Revenue Budget for 2025/26 as outlined in table 1 of the main report and Appendix 1.

2.2 Approves the new Capital Programme Budget of £77.765m for 2025/26 as part of the revised capital budget of £111.098m (which includes reprofiles of £33.333m at month 9 from 2024/25).

2.3 Approves the earmarking of £1m reserves against disrepair claims for 2025/26.

2.4 Approves the 5-year capital programme as set out in Appendix 3 to the report.

3. Context and background information

Council Plan 2023 to 2027

3.1 The Council Plan 2023 to 2027 sets the vision and priorities for Brighton & Hove to be a city to be proud of, a healthy fair and inclusive city where everyone thrives. To deliver the vision focus will be given to four outcomes that are supported by a range of commitments and actions. Full details are in the published plan and the four outcomes supported are.

- Outcome 1 - A city to be proud of
- Outcome 2 - A fair and inclusive city
- Outcome 3 - A healthy city where people thrive
- Outcome 4 - A responsive council with well-run services

3.2 Whilst the HRA budget proposals will address all four of the Council Plan outcomes, the main focus will be on delivering against the fair and inclusive city, goal of Homes for Everyone, with investment supporting the following priorities:

Improve housing quality:

- Invest in building and fire safety to meet new duties under the Building Safety Act.
- Ensure the council complies with new social housing regulations.
- Complete post pandemic recovery including reducing backlog of housing repairs.
- Improve the energy performance of council homes through our capital works programme.
- Improve the sustainability of our housing stock.

Increase housing supply:

- Increase the number of new affordable homes delivered by the council.
- Buy back council homes lost through the right to buy.

Improve housing support for residents:

- Optimise the local benefits and social value of our in-house repairs and maintenance service.

HRA Revenue Budget Proposals 2025/26

3.3 When setting the revenue budgets for 2025/26, consideration of all known and quantifiable changes has been given. In some instances, this has been managed by reallocating resources to reflect the changes in service need and demand.

3.4 Table 1 below sets out the movement from the adjusted 2024/25 budget to the proposed 2025/26 budget by service area. This takes into consideration the impact of inflationary uplifts across all areas of the budget as well as the identified service pressures and efficiencies that were put forward as part of the review undertaken during 2024, which included addressing ongoing pressures from 2024/25.

3.5 The forecast outturn for 2024/25 is breakeven, this position includes an underspend of £0.229m across service areas offset resulting in a proposed increase in contribution to reserves in year. The detailed forecast includes pressures arising from the Large Panel Systems (LPS) emergency response, as well as variances within specific service. If an overspend occurs in the HRA it could result in a contribution from general reserves at year end, if it cannot be managed down. As outlined reserves are not required to bring the HRA into balance for 2024/25, a contribution to reserves is planned. Full details of the current financial outturn can be found in the TBM 9 report to Cabinet, which is part of the same meeting agenda.

3.6 The 2025/26 total revenue expenditure budget, including capital financing costs to be approved, is £80.046m, whilst revenue income is £80.288m providing a planned surplus in year of £0.242m. The proposal is to contribute to general reserves an amount that equals this surplus and by doing so help to safeguard the HRA's financial viability and sustainability over the medium term. An alternative to this would be to use the surplus to fund the capital programme in 2025/26, reducing the borrowing costs in future years. Whilst this reduces borrowing costs, a greater benefit will be derived by using the reserves in future years for revenue purposes.

3.7 The impact of the fall in inflation is having a positive impact for the HRA compared to assumptions made in the Medium-Term Financial Strategy (MTFS) in 2024/25 however other service pressures have arisen which have offset this. Total expenditure inflation is £1.099m offset by the increased income inflation against income of £2.065m. This demonstrates that the proposed increase for rents at 2.7% is covering the cost of inflation in addition to supporting in part additional investment that is required to be made through service pressures.

3.8 In addition to inflation there is a need for additional recurrent investment relating to an increase in service demand, cost of compliance and increased financing costs, referred to as service pressures. Total service pressures for 2025/26 are £7.693m. These have been driven in part by the pressures being felt during 2024/25 which have been reviewed for reasonableness. Service pressures are in part funded by the increased income as outlined in 3.7, efficiencies proposed against existing budgets, increased income from new supply developed during 2025/26 and a reduced contribution to reserves. A table listing the service pressures and other changes is outlined in Appendix 1 to the report.

3.9 The Final Local Government Financial Settlement confirmed that HRA's would not be provided with additional grant to cover the impact of the increase to the rate and threshold of Employers' National Insurance Contributions (NICs). The cost of this increase is incorporated within 'Other Changes' including staffing budget changes in Appendix 1.

3.10 Table 1 below includes the high-level summary of recurrent cost assumptions offset by the increase in income predominantly from rental income for dwellings. For the 2025/26 budget proposals a budget provision for the estimated cost of depreciation is included; this figure is based upon the current charge uplifted by 5% and adjusted for the impact of the Large Panel Systems being valued as zero on the council's balance sheet. Under the Local Government & Housing Act 1989 the depreciation charge is required to be set aside in a Major Repairs Reserve to fund the HRA capital programme.

Table 1 - Revenue Budget	2024/25 Adjusted budget	Movement Between Financial Years: Inflation	Service Pressures	Other Changes	2025/26 Original Budget
Service Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Housing Investment & Asset Management	5,581	124	1,039	(176)	6,568
Housing Management & Support	7,382	150	538	(327)	7,743
Housing Strategy & Supply	1,579	34	449	10	2,072
Repairs & Maintenance	18,522	415	1,608	(1,278)	19,267
Tenancy Services	15,013	339	1,032	(9)	16,375
Total Expenditure	**48,077**	**1,062**	**4,666**	**(1,780)**	**52,025**
Capital Financing					
Depreciation*	19,567	0	0	(3,118)	16,449
Capital Financing Costs	8,509	36	3,027	0	11,572
Total Capital Financing Costs	**28,076**	**36**	**3,027**	**(3,118)**	**28,021**
Total Expenditure	**76,153**	**1,098**	**7,693**	**(4,898)**	**80,046**
Income	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Rents Dwellings	(67,111)	(1,793)	0	(1,482)	(70,386)
Rents Car Parking / Garages	(1,244)	(57)	0	0	(1,301)
Commercial Rents	(640)	0	0	0	(640)
Service Charges	(6,845)	(207)	0	(487)	(7,539)
Other Income	(313)	(9)	0	(100)	(422)
Total Income	**(76,153)**	**(2,065)**	**0**	**(2,069)**	**(80,288)**
DEFICIT / (SURPLUS)	**0**	**(967)**	**7,693**	**(6,967)**	**(242)**
Contribution to / (from) reserves					242

*includes 24/25 contribution to reserves of £3.266m

Rents and Service Charges

3.11 Social rents for council homes are calculated in accordance with government guidelines. Rent restructuring rules still apply and Target Rents for each property are calculated based on relative property values, bedroom sizes and local earnings. The Target Rents will apply to all new social rent tenancies.

3.12 Affordable rents, which include the council's Living Wage rents, Local Housing Allowance (LHA) Temporary Accommodation (TA) rents and full LHA rents, are calculated differently to social rents. For Living Wage rents this means that for any new tenancies and re-lets, rents are set using the new National Living Wage hourly rate due to be introduced from 1st April 2025. LHA rents are however capped at the lower of the LHA rate or 80% of the market value. For new tenancies and re-lets an assessment of the market value is undertaken at the time of letting to ensure the overall charge including service charges does not exceed those limits. There has been no indication that the LHA rates will increase in April 2025 and so the current assumption is they remain frozen. However, in many cases the rents are capped at 80% of the market rent, and so any increase in LHA is unlikely to have any beneficial impacts for the HRA. Further information on these rates can be found on the council's website. LHA TA rates are applied to temporary accommodation tenancies, rents are capped at 90% of the 2011 LHA rates.

3.13 The proposed uplift in rents is 2.7%, this being the September CPI rate of 1.7% plus 1%. This proposed uplift is in line with the government's rent setting policy. Any reduction in this percentage uplift will have a negative impact on the 2025/26 budget proposals and the MTFS, with the reduction in income being lost from the HRA indefinitely. In turn this reduces the available resources to invest in tenants' homes and creates pressures on the HRA finances in order to achieve balance.

3.14 Table 2 below sets out the Average weekly rent increases across the different rent types based on the proposed 2.7% uplift.

Table 2 – Rent Type	No. of tenancies	% of Stock	24/25 Average Rent £	25/26 Average rent £	Average Weekly uplift £
Social	11,403	94%	104.04	106.84	2.80
LHA	240	2%	157.91	162.17	4.26
37.5% Living Wage	205	2%	209.65	215.31	5.66
27.5% Living Wage	71	1%	214.35	219.52	5.17
LHA TACC	226	2%	147.99	149.71	1.72

3.15 It is important that when comparing the average rent levels above consideration is given to the mix of units within the specific rent categories. Table 3 below provides a summary of the mix of units and the breakdown of weekly rent against each category.

Table 3 - Average rent and Ratio of the number of bedrooms per rent type.

Rent Type	*Studio*	*1 Bed*	*2 bed*	*3 Bed*	*4 Bed*	*5 bed+*
Social	80.14	92.00	104.07	118.85	130.94	149.77
	5%	32%	38%	23%	2%	<1%
Affordable at 27.5% Living Wage	120.53	133.08	155.02	179.77	0.00	0.00
	1%	7%	72%	20%	0%	0%
Affordable at 37.5% Living Wage	0.00	178.12	207.33	244.27	260.41	278.34
	0%	18%	62%	15%	4%	0%
Affordable at LHA	0.00	170.19	231.97	279.38	0.00	0.00
	0%	43%	38%	19%	0%	0%
Affordable at LHA TA	114.08	132.69	173.30	222.95	299.98	299.98
	10%	61%	18%	8%	3%	1%

3.16 When setting the Affordable rents and Living Wage rents for current tenancies, consideration is given to the prevailing rates for Local Housing Allowance (LHA) - both TA and full rates - and the national living wage for the new financial year. This is compared against the 2.7% increase to ensure they do not exceed the permitted uplift.

3.17 Rents are not calculated to include any service charges and only include charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services. Service charges are therefore calculated to reflect additional services which may not be provided to every tenant, or which may relate to communal facilities rather than to a specific occupation of a house or flat. Different tenants may receive different types of services reflecting their housing circumstances. All current service charges are reviewed annually to identify any service efficiencies which can be offset against inflationary increases to keep increases to a minimum, the maximum that will be charged is a full cost recovery however there are some which are currently not fully recovering the costs. A Full review of the costs being incurred and how they are charged will be undertaken to ensure the HRA recovers costs as far as is reasonable. It will not be financially sustainable for this position of under-recovery to continue over the longer term.

3.18 The proposed fees and service charges for 2025/26 are set out in Appendix 2.

HRA Reserves

3.19 The projected level of HRA reserves as at 1st April 2025 and 31 March 2026 are shown in Appendix 1. Total reserves at March 2026 are estimated to be £12.760m, with £0.103m earmarked for use against specific projects. This leaves £12.657m, including the proposed contribution as part of the 2025/26 budget proposals, as general reserves not earmarked, although a minimum reserve of £3m is recommended to meet general legal and financial risks including higher than expected inflationary pressures, cost overruns, potential legal challenges or claims, and other contingencies.

3.20 Excluding the minimum working balance there is £9.657m of general reserves that the HRA can call upon to support financial pressures. Cabinet are being asked to earmark £1m of this reserve specifically for disrepair legal claims, this has been reflected in the table in Appendix 1.

3.21 In common with other social housing providers, the issue of formal Disrepair Claims being raised by tenants via solicitors, often working on a ‘no win no fee’ basis, is a growing financial pressure on the service. Over the last two years there has been a significant increase in the number of disrepair claims being made, currently the number of claims being handled is c.200. This is creating a burden on the HRA budget which is difficult to quantify due to the uncertainty and timing of potential claims. The core 2025/26 budget includes an increase in Legal Services’ resources to deal with these with the aim of reducing the overall cost burden in addition to a service pressure in recognition of the increased settlement costs. However, it is not considered financially sound to budget for the legal claims as they do not form part of the day to day running of the service. In the absence of being able to reliably estimate a value setting aside £1m of the reserve to manage this risk is considered prudent at this time. A review will be undertaken on an annual basis as to whether this reserve needs to be called up or increased. Housing, Finance and Legal Services continue to work on a Disrepair Improvement Plan as set out in 3.32 below.

3.22 The remaining £8.657m is available for use to help manage the HRA finances as last resort, the first consideration should be to manage within the agreed budget. Should any of the reserve be required Cabinet approval will be required and can be managed through the council's financial management procedure, referred to as TBM.

3.23 The council's Section 151 Chief Finance Officer has reviewed the level of reserves and provisions in accordance with the requirements of Section 25 of the Local Government Act 2003 and considers them to be adequate and reasonable for their purpose in the context of the HRA's overall financial position.

HRA Capital Programme 2025/26

3.24 The Housing Capital Programme seeks to provide substantial investment in the council's housing stock and improve the quality of homes for 2025/26 for which the budget to be approved is £77.765m; the total programme is estimated to be £111.098m including budget reprofiled from 2024/25 due to timing delays. The implementation of the proposed programme will take account of all relevant best practice guidelines.

3.25 The Programme reflects the delivery of planned maintenance, improvement programmes and major capital projects to council housing informed by stock condition survey information and ongoing surveys of the council's housing stock. An updated Housing Asset Management Strategy is currently being developed for consultation and Cabinet's consideration and approval.

3.26 It is recognised that there is significant investment required to address the issues identified at the 8 Large Panel System (LPS) blocks across the city. There are number of options to consider which will require a separate business case to be approved by Cabinet, this is due to be presented in the Summer of 2025. The capital programme being presented as part of this report includes investment in purchase of leaseholder homes where opportunities present themselves in addition to the initial feasibility costs associated with the options appraisals.

3.27 This investment totals £18.770m and has been profiled over five years as outlined in Appendix 3 to the main report. For 2025/26 the budget estimate is £4.354m. A separate report will be considered by Cabinet regarding the policy and approach to purchasing these leasehold properties.

3.28 The level of funding required for the HRA capital programme exceeds the Major Repairs Reserve (MRR) contribution as can be seen in table 4. Therefore, borrowing will be required to meet this level of investment. The resources available to fund the capital programme will be kept under review during the financial year and any borrowing decision will be made in line with treasury management advice and within approved prudential limits. A review of the HRA's reserves and borrowing position will be carried out on a regular basis and reported in accordance with the council's financial regulations and procedures.

3.29 The impact of having to borrow against existing stock for the HRA is that it increases the burden on the core revenue budget to fund the financing costs. The MTFS sets out the increased level of financing costs as a result of the MRR not being sufficient to meet the investment required.

3.30 Appendix 3 to the report sets out the five-year capital programme with full strategy and detail for each programme provided.

Table 4 – 2025/26 Capital Programme	Proposed 2025/26 budget for approval £'000	Profiled budget 2025/26 £'000	Total Budget 2025/26 £'000
Expenditure			
New Supply	30,402	19,603	50,005
Health & Safety	13,096	941	14,037
Major Works *	13,570	13,339	26,909
Planned Works	9,807	250	10,057
Sustainability	6,690	(800)	5,890
Other	4,200	-	4,200
Total Capital Investment	**77,765**	**33,333**	**111,098**
Funding			
Major Repairs Reserve	16,449		16,449
General Capital Receipts	482		482
RTB Receipts	4,224	4,263	8,487
Energy Grants/Feed In Tariffs (FIT)	180		180
Homes England Grant / Local Authority Housing Fund (LAHF)	3,423	16,696	20,119
Sustainability Grant	1,200		1,200
Leaseholder Income	500		500
New Supply Borrowing	9,482	10,881	20,363
Existing Stock Borrowing	41,825	1,493	43,318
Total Funding	**77,765**	**33,333**	**111,098**

*includes £4.354m for the initial LPS feasibility and proposed acquisition programme

HRA Medium Term Financial Strategy & 30 Year Financial Forecasts

3.31 The introduction of self-financing in 2012 provided additional resources from the retention of all rental income and, through greater control locally, enabled longer term planning to improve the management and maintenance of council homes. Since that introduction there have been a number of national Government rent policy factors which have compromised the financial stability of the HRA leading to a projected deficit position from 2026/27. This is an increasingly common picture with other Local Authorities HRA's.

3.32 The factors referred to are:

- A 1% rent reduction from 2016/17 to 2019/20 removing an estimated £9.3m from the revenue budget.
- A cap on rent increases in 2023/24 removing a further £2.6m from the budget in today's terms.

3.33 Understanding the demands on resources over the coming years remains key to ensuring the financial viability for the HRA. Close monitoring of the in-year financial position will ensure early identification of any emerging financial pressures, allowing for mitigation strategies to be implemented. The HRA is facing several challenges which are impacting on the financial viability over the medium to long term. Many of these have been included in the 2025/26 service pressures and are detailed in Appendix 1 to this report. They are outlined below; however, this is not an exhaustive list and subject to change.

i. Building Safety and Fire Safety Regulations:

The investment required is a result of the implementation of the Building Safety Act and Fire Safety (England) Regulations. This includes works required to ensure compliance across the council's stock and will impact on both revenue and capital budgets over the medium term. Provision has been allowed for in the budget proposals and this will be kept under review during the year.

ii. Social Housing (Regulation) Act 2023 and Health and Safety:

Place Overview & Scrutiny Committee on 21st January 2025 considered and noted a Housing Safety and Quality Update report providing an overview of Brighton & Hove City Council's progress in addressing housing safety and quality compliance, following the Regulator of Social Housing's (RSH) judgement on 9 August 2024. The judgement followed a period of Council engagement with RSH including sharing information on our backlog of routine repairs and Housing, Health & Safety Compliance Review. The RSH, highlighted failings in safety and quality compliance and routine repairs backlog. It reflects the enhanced consumer regulation processes introduced in April 2024 as part of post-Grenfell reforms.

The budget proposals for 2025/26 look to address the implications of the RSH judgement, however, there remains uncertainty about what level of resource will be required. Any future cost implications will be reviewed with the first mitigation being to utilise resources already approved and report this through the council's financial management process.

iii. Large Panel System buildings:

In line with Building Safety Act compliance requirements, structural investigation surveys are being completed on the following 8 LPS blocks in the HRA: St James House; Nettleton Court; Dudeney Lodge; Swallow Court; Kestrel Court; Kingfisher Court; Heron Court; and Falcon Court. The 2024/25 budget forecast includes pressures arising from the Large Panel Systems (LPS) emergency response. As outlined in paragraph 3.25 there is significant investment required to address the issues identified at the 8 Large Panel System (LPS) blocks across the city following the surveys which will be the subject of an options paper presented to a forthcoming Cabinet. Some initial feasibility and leaseholder buy back costs included in the 2025/26 capital programme.

iv. Sustainability Investment:

It is recognised that Housing can play a significant part in reducing the City's carbon footprint and therefore contribute to carbon net zero. Improved energy performance of homes is addressed through investment in planned and major works programmes, including improvements to roofing, windows, doors, external works, heating systems as well as installation of solar PV's. The total proposed investment programme over 5 years including all the areas for investment listed is estimated to be £30.560m with the 2025/26 programme being £5.890m.

v. Disrepair Claims:

The level of disrepair claims continues to be a concern for the HRA, these have grown in number over the last few years, increasingly due to the approach being taken by 'no win, no fee' lawyers. It is anticipated that this will be a risk going forward. To try and manage the situation the 2025/26 budget includes an increase in Legal Services' resources to deal with these with the aim of reducing the overall cost burden However, this remains an estimate and will be closely monitored to ensure costs are managed as far as possible. The decision has been taken to not include a core budget for the actual cost of claims, this will be managed through the HRA reserves. The agreed approach is set out in paragraph 3.20.

Work continues on a Disrepair Improvement Plan working across Housing, Finance & Legal services to review our approach to Disrepair claims, to include:

- greater analysis of Housing disrepair cases, for example the nature and types of disrepair.
- understanding where claims arise from and how this may interrelate with the current backlog in routine repairs.
- how we can become more proactive in our understanding and management of claims.
- identifying positive action that has the potential to head off claims when we know there are issues that may give rise to tenants approaching lawyers about disrepair, and.
- peer review of best practice in other local authorities.

vi. Rent setting policy:

The 2024 Autumn Statement announced the that the rent settlement allows landlords to raise rents by CPI plus 1%. This currently extends to April 2026, with a view to be able to increase rents by CPI +1% for the 4 years after 2025/26. This has been factored into the MTFS. It is widely recognised that this will fall short of being able to fully address the HRA's financing costs and support the large increases in pressures that the HRA has faced over the last few years.

Further to this five year settlement it is reported that Central Government is considering a 10 year rent settlement. Whilst this would be a welcome boost for the long-term financial forecast it does not address the short term financial issues that the HRA is facing. A strategy needs to be developed to be able to manage those issues in the short term.

vii. Rent Arrears:

Since the pandemic there has been a steady decline in the rent collection rate. At the end of the financial year 2019/20 the collection rate was 96.8% but it is estimated that at the end of March 2025 it will be 93.07% equivalent to 1 in 16 tenants not paying rent for the year. There is a combination of factors that have resulted in this reduction including the move to universal credit for some tenants, the economic after-effects of the pandemic and wider cost of living concerns.

The total Bad debt provision is forecast to be £2.458m by 31st March 2025, equivalent to 34.2% of the total arrears balance of £7.191m. This is a significant risk for the HRA that will be monitored closely to ensure that rent collection improves as inflation and the cost of living situation eases. Following a review of all bad debt provisions currently allowed for by the HRA which includes a provision for General Needs Rents and Leaseholder bade debt a decision was made to transfer £0.800m of the provision from leaseholder bad debt to top up the general needs rents. The reasoning behind this being that the bad debt for leaseholders is secured against the property and so is recoverable on the sale of the property. This transfer of provision resulted in an underspend in 2024/25 and a reduced level of bad debt provision in 2025/26. Therefore, the HRA budget proposals include a budget of £0.400m for the provision of bad debts in 2025/26, which is considered reasonable at this time, with future years budget provision increasing to £0.565m based on assessment of the total provision available for the next two financial years.

A recovery plan is being developed and will be implemented by the Housing Income Management Team in order to reduce arrears, this includes maintaining staff resources at the current levels; changes to arrears collection procedures which place greater emphasis on personal contact with tenants and early intervention; a revised arrears escalation policy; and tenant access to the offer of the money advice and debt provider (Money Advice Plus) services.

viii. Financing Costs against existing stock:

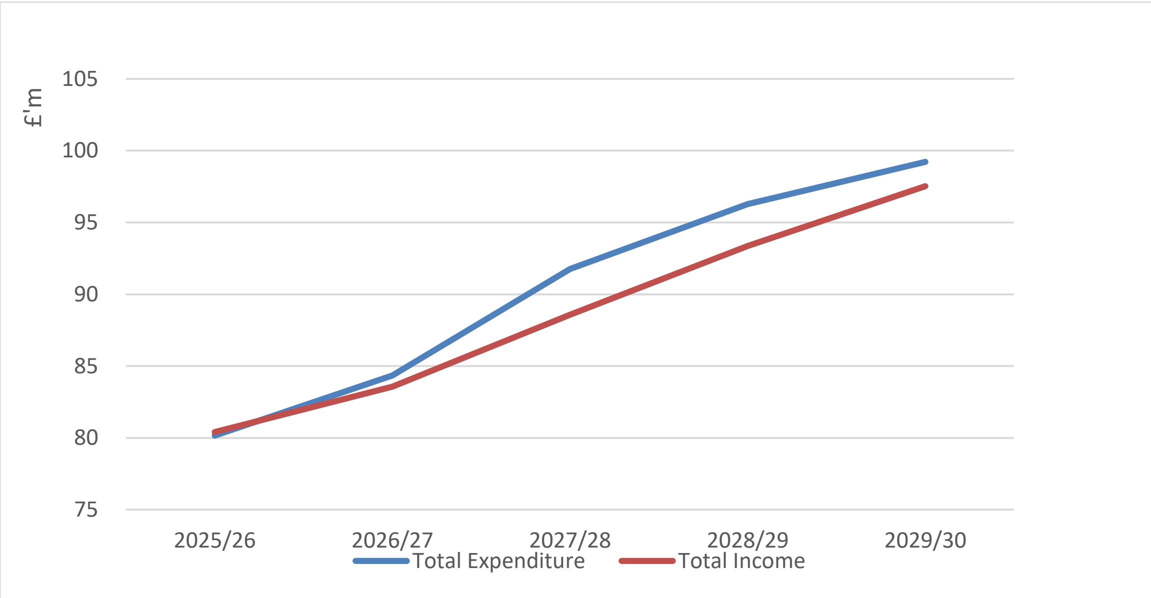
Through 2023/24 and 2024/25 there has been a need to borrow to fund the investment required in the existing stock. This is expected to continue over the medium term and is a significant change in funding for the HRA. This is the result of the reduced rent as set out in paragraph 3.31 and increased investment required to ensure compliance. There is no longer the level of MRR available to support the in year capital programme.

The annual financing costs required to be funded by existing resources are increasing by £7.133m over the MTFS period, making up 86% of the cumulative deficit over the same period. To manage this there would need to be a reduced capital programme over that period and take advantage of any favorable movements against the assumed interest rates. The timing of the increased investment in the capital programme has also been at a time when interest rates have been at their highest rates for a number of years.

This is not an isolated issue for Brighton & Hove City Council, this is an increasingly common occurrence across other Local Authorities.

3.34 The MTFS has, where possible, allowed for investment across priority areas without compromising the known investments that are needed in the next twelve months. However, budgets remain under increasing pressure making the medium-term planning process challenging. The chart below demonstrates that based on current assumptions growth in expenditure consistently outstrips growth in income.

3.35 The medium term and 30-year financial forecasts are provided in Appendix 4, along with the assumptions and risks identified for income and expenditure.



4. Analysis and consideration of alternative options

4.1 The budget process allows all parties to engage in the scrutiny of budget proposals and put forward viable alternative budget proposals to Full Council on 27 February 2025. Full Council can debate both the proposals recommended by Cabinet at the same time as any viable alternative proposals.

5. Community engagement and consultation

5.1 The Council is committed to ensuring tenants and leaseholders are engaged in the HRA budget setting process ahead of Council decision making on the budget. In particular, that changes in financial strategy and decisions on priority capital and revenue (service pressure) are communicated and understood alongside the rationale for rent and service charge uplifts.

5.2 Tenants have been engaged in the budget setting process through workshops at the October Annual Tenant Conference and a budget presentation and discussion at the November Area Panels meetings. At both of these meetings key issues were presented to tenants for consideration.

5.3 There will be continued engagement on significant budget matters throughout the year ensuring tenants views are considered.

6. Financial implications

6.1 The financial implications are contained within the main body of the report.

Finance officer consulted: Craig Garoghan Date consulted: 16/01/2025

7. Legal implications

7.1 Under the Local Government and Housing Act 1989, the council is required to maintain a separate HRA and must prevent a debit balance on that account. Rents and other charges should be set to avoid such a debit. The Housing Act 1985 provides that a local authority may make reasonable charges for the tenancy or occupation of their houses. The council's standard secure tenancy agreement provides for tenants to be given "at least four weeks" notice in writing of any increase in rents and other charges before any increases are implemented. Approval of the 2.7% increase in rents at the 13 February Cabinet meeting will allow adequate time for the proper notice to be given.

7.2 In its landlord role, the council has contractual and statutory obligations to maintain its housing stock. The revenue and capital proposals in the report will assist in discharging those obligations.

Lawyer consulted: Liz Woodley Date consulted 15/01/2025

8. Equalities implications

8.1 The HRA budget funds services for people with a range of needs including those related to age, vulnerability or health. All capital programme projects undertaken include full consideration of various equality issues and specifically the implications of the Equality Act. To ensure that the equality impact of budget proposals is fully considered as part of the decision-making process, equality impact assessments have been developed on specific areas where required.

9. Sustainability implications

9.1 The sustainability implications are contained within the main body of the report.

10. Health and Wellbeing Implications:

10.1 There are no health and wellbeing implications arising directly from this report.

Other Implications

11. Procurement implications

11.1 There are no procurement implications arising directly from this report.

12. Crime & disorder implications:

12.1 There are no crime & disorder implications arising directly from this report.

13. Conclusion

13.1 The Local Government and Housing Act 1989 requires each local authority to formulate proposals relating to income from rent and charges, expenditure on repairs, maintenance, supervision and management, capital expenditure and any other prescribed matters in respect of the HRA. In formulating these proposals using best estimates and assumptions, the Authority must set a balanced account. This budget report provides a capital programme and break-even revenue budget and recommends rent proposals in line with current government guidance.

13.2 This report also provides the latest medium and long-term forecasts for the HRA. However, there are several uncertainties due to recent government legislation, which means that the current forecasts should be treated with caution.

Supporting Documentation

1. Appendices

1. HRA Revenue Budget 2025/26
2. HRA Service Charges 2025/26
3. HRA Capital Programme 2025/26 – 2029/30
4. HRA Medium Term Financial Strategy & 30 Year Financial Plan