THE NORTH YORKSHIRE COUNCIL

EXECUTIVE

21 JANUARY 2025

HOUSING REVENUE ACCOUNT BUDGET 2025/26 AND MEDIUM-TERM FINANCIAL PLAN

Joint Report of the Corporate Director – Resources & Corporate Director – Community Development

1.0 PURPOSE OF REPORT

1.1 Make recommendation to the Council regarding the Housing Revenue Account (HRA) budget for 2025/26, HRA Medium-term Financial Plan (MTFP) for 2026/27 to 2027/28 and 30-year HRA Business Plan.

1.2 Agree the rent increases to be applied for 2025/26 and recommend them to the Council for approval.

2.0 INTRODUCTION AND CONTEXT

2.1 The Housing Revenue Account is a ring-fenced account within the Council's General Fund (GF). It records the income and expenditure arising from the provision of housing accommodation by local housing authorities.

2.2 On the formation of North Yorkshire Council (NYC), three existing Housing Revenue Accounts from former stock holding District and Borough authorities were brought together. In the first year of NYC, 2023/24 the Housing Service undertook a full service restructure which was implemented on 1 April 2024, developed the first Housing Strategy for NYC, undertook a self-assessment against the Regulator of Social Housing (RSH) Consumer Standards and set out ambitious growth plans to increase the HRA stock by 500 additional homes within 5 years.

2.3 From April 2024 the Social Housing Regulation Act came into force. This legislation has key implications for the way that social housing is managed. It introduces new consumer standards that place increased emphasis on the safety and quality of homes and on tenant engagement. The Act also enhances the powers of the Regulator for Social Housing (RSH) and includes a statutory requirement on the RSH to undertake inspections of all social landlords every four years. A self-assessment against the consumer standards was undertaken in early 2024 and in recognition that the new

Council was not compliant with all the elements of the new consumer standards a self-referral to the RSH was made. Further to this the Council has received a responsive regulatory judgement which gives the Council a C3 grading. This means there are serious failings in delivering the outcomes of the consumer standards and improvement is needed. Key areas of non-compliance include a lack of reliable information about the condition of homes and gaps in health and safety requirements, along with a lack of ways in which tenants can get involved.

2.4 Given that it was apparent the Council needed to focus its investment to comply with the new standards going forward, the 2024/25 budget and MTFP incorporated £2m of additional capacity per annum within the revenue budget to build resilience within the service structure and to support the Housing Improvement Plan which sets out a detailed action plan to address issues and improve services for tenants.

2.5 In addition, the capital plan incorporated £111m of investment to support the delivery of 500 additional homes, plus the replacement of stock lost through Right to Buy to give an assumed total of 1,220 homes over the 30-year plan.

3.0 CURRENT POSITION

3.1 The need for the Council to be compliant against the Regulatory standards is the number one priority going forward and remains a key consideration in terms of future financial planning. A range of activity has already been undertaken to date. This has included the development of a detailed Housing Improvement Plan, the development of new governance arrangements including a Housing Improvement Board and the new Housing and Leisure Overview and Scrutiny Committee. New structures for tenant involvement and engagement are being established. In addition, a range of activity is underway to address the areas of non-compliance including the commencement of a rolling programme of stock condition surveys and the development of management plans and procedures around health and safety requirements. A number of key policies have been approved or are in development. New staffing structures have been developed that bolster the Council's capacity in key service areas, including for example increased emphasis on tenant involvement and tackling anti-social behaviour. In addition, new procedures and processes have been adopted to improve the Council's approach to complaints handling.

3.2 Under the new consumer standards, the views of tenants in shaping the direction of services provided by their landlord is now of paramount importance. Councils are required to undertake an on-going programme of tenant satisfaction surveys and publish Tenant Satisfaction Measures (TSM) results. Outcomes and feedback from these surveys should inform strategic decision making. The Council undertook if first survey in the Autumn of 2023 and received feedback from over 2,200 tenants and provided an overall satisfaction score of 70%. However, some measures received satisfaction levels below 60%, these included how tenants' views are considered and acted upon, the way we handle anti-social behaviour and the ways complaints are handled. A key theme within the results is the importance of the Council's repairs and maintenance service which is the number one factor influencing satisfaction levels overall. This feedback was expected and very much supports both the drive within the consumer standards around safety and quality of the stock.

3.3 The cost of improving the energy efficiency of the stock is also a key factor that needs to be considered in relation to the financial plan. The autumn budget 2024 allocated £1.29bn funding to The Warm Homes: Social Housing Fund Wave 3, a grant funding scheme to assist social landlords bring all properties up to a minimum standard of Energy Performance Certificate-C (EPC-C) by 2030, and to support the following key objectives:

- deliver warm, energy efficient homes
- reduce carbon emissions
- tackle fuel poverty
- support green jobs
- develop the retrofit sector
- improve the comfort, health and well-being of social housing tenants

On 25 November 2024 NYC submitted a bid, which if successful, could attract up to £34.3m grant funding, which must be matched by internal funding of £28.9m. This would provide energy efficient measures to 2,700 properties. To bring the full council stock up to the minimum EPC-C standard, it is estimated works are required to around 4,500 properties.

3.4 The Autumn Budget 2024 also recognised the challenges faced by Social landlords losing stock through Right to Buy and announced reductions to the maximum Right to Buy cash discounts applied to the purchase of Council homes, along with other (temporary) measures giving greater flexibilities on the use of retained receipts to assist with viability challenges in investing in new stock. The amount of discount varies depending on a number of factors including the length of tenancy. Before the changes were announced the maximum discount that could be applied was £102k, from 21 November this was reduced to £24k for the Yorkshire and Humber Region. Ahead of changes coming into force, NYC experienced a sharp spike in applications being lodged, this will be kept under review as it is unclear at this stage how many sales will progress. Longer term, this reduction in the maximum discount will be beneficial to supporting NYC's ambitions to increase the supply of social housing.

3.5 A 'Reforming the Right to Buy' consultation was also launched seeking views on a range of other measures to deliver a fairer and more sustainable scheme. The consultation will close on 15th January 2025 and therefore the impact will be fully assessed once the outcome is announced. Amongst other measures, early indications suggest there will be more exemptions around newly built housing and investment, greater restrictions to discourage profiteering from acquiring discounted properties and enhanced flexibilities on the use of retained receipts with other sources of funding.

3.6 The current HRA stock holding is around 8,360 (the number fluctuates regularly as properties are sold and acquired), an increase of 23 properties since 31st March 2024, with further additions forecast before 2024/25 year end. The HRA also holds a number of additional properties including hostels and garages. As referenced in paragraph 2.5 above, the capital plan includes a target to deliver 500 additional homes for the HRA stock by 2028/29, this is over and above a minimum expectation to replace properties sold through Right to buy on a 1 for 1 basis.

4.0 BUSINESS PLAN CONSIDERATIONS FOR 2025/26 BUDGET AND MTFP

4.1 As referenced in **paragraph 3.3** to take advantage of the grant funding opportunity, NYC submitted a bid to access £34.3m from the Department for Energy Security and Net Zero (DESNZ) which requires £28.9m internal match funding to meet eligibility criteria. The level of grant to bid for was determined by experience from smaller scale pilot schemes, to pitch at a level which is both challenging but realistic in terms of deliverability within the 3 year timescales.

4.2 Ahead of submitting the proposed bid, funding requirements were assessed within the HRA business plan performance metrics to ensure the programme was affordable and financially sustainable over the mid-long term. This identified a potential short-term borrowing requirement of £13m as available resources from reserves and working balances would be fully utilised and risk running below minimum thresholds, determined by the 4 key performance metrics. As borrowing has historically been reserved for funding growth projects (new developments and acquisitions), it has been assumed this borrowing will be repaid in tranches in the following years. Whilst the final grant award will not be confirmed until early 2025, due to the significant level of investment required and project timescales, the funding has been built into the HRA budget and MTFP to ensure resources are not committed to alternative projects and to highlight the necessity to apply Consumer Prices Index (CPI) +1% rent increases.

4.3 Social Housing landlords, including local authorities are also awaiting the outcome of a recent Government consultation on a new social housing rent policy, to come into effect from 1 April 2026. This is also covered at paragraph 7.4 but sets the scene in relation to rent assumptions incorporated within the budget. Current indications are that the policy will be set at CPI+1% for a minimum of 5 years, with options to extend for longer periods to provide a greater degree of certainty to support investment in new and existing properties. The base budget assumptions have therefore been based on CPI+1% for 6 years (2025/26 + 5years), with the alternative of CPI+1% for 1 year only being overly pessimistic, and anything beyond 6 years too optimistic.

4.4 The process to gain full stock condition data is still in progress. This data will be used to support targeted capital works to existing stock and void works, for example replacement kitchens, bathrooms and windows along with ensuring compliance standards are met. This evidence base will also be used to shape longer term capital spending plans to enable further refinement of the budget, and therefore for 2025/26 budget setting, benchmark assumptions have been used (as with the 2024/25 budget).

5.0 BUSINESS PLAN MODELLING AND PERFORMANCE METRICS

5.1 To provide the financial framework for the Business Plan and MTFP, three scenarios have been modelled which incorporate the following key points:

- Business Plan considerations (identified in section 4);
- Maintaining existing growth expectations (500 new + RTB 1-1); and
- Assessing investment capacity to bring properties up to EPC-C standards.

The three scenarios are set out below:

5.1.1 Mid Case (Base position for budget assumptions)

- Continue plans to deliver 500 additional new homes within 5 years.
- Assumes Right to Buys replaced on 1-1 basis.
- Rent inflation Consumer Price Index (CPI)+1% for 6 years, reverting to CPI in year 7 pending outcome of the Government consultation.
- Borrowing and investment position reviewed annually, assuming debt refinancing when loans become due (excluding one existing loan which repays principal instalments annually over the loan term).
- Major repairs investment increased by £2m per year to £16.5m to support adaptations work.
- Match funding of £28.946m to support the Warm Homes Grant scheme and bring 2,700 properties up to EPC-C standards, phased over 2025-26 to 2027/28. Anticipated borrowing requirement of £13m.

5.1.2 Full stock EPC-C programme

Assumptions per base position, except:

- Assumes expanding EPC-C programme to fund a further 1,800 homes to gain full stock coverage without external grant funding. Additional £41.917m over 2028/29 to 2030/31
- Additional borrowing requirement of £42m.

5.1.3 Rent increase capped at CPI only

Assumptions per base position, except:

- Rent increases set in line with inflation for the duration of the 30-year business plan.

5.2 The financial assessment of the three scenarios is supported by key business plan metrics or 'golden rules' which have been developed to assist with managing risk in the context of business planning, focusing on liquidity, resilience and sustainability. These metrics or 'golden rules' are complementary measures alongside prudential indicators set out in NYC's Treasury Management Strategy. Results are shown at **Appendix A** and summarised below:

5.3 The modelling of the 3 scenarios supports the proposal to agree the mid-case budget assumptions, to approve rent increases at CPI+1% and at this stage incorporate match funding to support the Warm Homes Grant bid. Rent increases below this level would result in performance metrics being breached and would therefore require a reduction to funding allocated to the bid, and potentially to other vital spending plans to improve stock condition and service standards. The addition of further capital funding to achieve full stock EPC-C standards, at present is also forecast to breach key metrics and it is therefore considered prudent to review this position again in the coming years as we gain experience through the next funding wave and have a better understanding of the expected future costs to maintain the stock and opportunities for efficiencies can be explored.

5.4 Along with financial performance metrics, service delivery indicators will also be developed to demonstrate value for money and stock sustainability. This will be combined with an annual review of the business plan and capital investment, with scenario planning and stress testing to ensure the plan can be flexed as necessary to manage future risks or changing priorities.

6.0 HRA REVENUE BUDGET SUMMARY

6.1 The budget that follows has been developed based on the Mid Case scenario above, along with any other known significant budget pressures.

6.2 A pay award of 4% has been included, and inflation where appropriate in line with the Council's General Fund budget. Whilst the Housing service is still in a transitional phase, no other budget restructuring has taken place.

6.3 A summary of the budget for 2025/26 to 2027/28 is set out below in Table 1. Current estimates show a projected deficit in year 2025/26 of £3.901m, with deficits of £4.207m in 2026/27, and £0.596m in 2027/28. The longer-term financial outlook is attached at **Appendix B,** which shows the 30-year HRA business plan estimates with revenue surpluses expected to return in year 2031/32 (Year 7). The running deficit is sustained in the short-term due to the availability of working balances and is due to the match funding commitment to the Warm Homes Grant scheme and repayment of £13m borrowing.

Table 1 – Revenue Budget Summary

	Current Year 2024/25 (£'000)	Year 1 2025/26 (£'000)	Year 2 2026/27 (£'000)	Year 3 2027/28 (£'000)
Income				
Rents (Council Dwellings & Hostels)	(41,744)	(42,847)	(44,695)	(46,724)
Non-dwelling rents	(442)	(456)	(466)	(476)
Charges for services and facilities	(1,334)	(1,377)	(1,407)	(1,438)
Other income	(512)	(517)	(522)	(532)
Investment Income	(955)	(739)	(543)	(410)
Total income	**(44,987)**	**(45,936)**	**(47,633)**	**(49,580)**
Expenditure				
Repairs and Maintenance	12,652	13,031	12,818	13,100
Supervision, Management and Admin	11,116	11,699	11,956	12,219
Interest Payments	3,710	4,058	4,687	5,445
Debt Repayment (EIP loan)	1,170	1,200	1,231	1,263
Depreciation charge to Major Repairs	9,084	9,356	9,562	9,772
Capital Expenditure funded from revenue	5,416	10,492	11,586	8,376
Total expenditure	**43,148**	**49,837**	**51,840**	**50,175**
Net (Surplus) / Deficit	**(1,839)**	**3,901**	**4,207**	**596**
Opening working balance	(19,285)	(21,124)	(17,223)	(13,015)
Use of working balance	(1,839)	3,901	4,207	596
Closing working balance	**(21,124)**	**(17,223)**	**(13,015)**	**(12,420)**

6.4 Income

6.4.1 The vast majority of HRA income comes from the rent that is charged to tenants. It is used to cover the operational running costs of the HRA, along with investing in maintaining the stock and servicing debt. Therefore, housing rents have a significant role in ensuring the Council has a financially viable Housing Revenue Account and Business Plan.

6.4.2 As expected, as a provider of social housing, approximately one third of rent payments are paid through Housing Benefits, meaning payments are made directly to tenant rent accounts through council systems, therefore reducing the risk of non-payment or delays in payments. As Universal Credit continues to be rolled out, this means the proportion of rents paid through Housing Benefits is reducing over time, and as such there is an increased risk of non-payment or delays in payments and therefore an annual provision of £384k is made for non-payment. That said, the Council currently performs well on rent collection, with rent arrears consistently within the top performing quartile in the benchmark group. More details regarding rents can be found in Section 7.

6.4.3 Other sources of income include rental income on non-dwellings (primarily garages), charges to leaseholders and warden services charges. Where it is permissible to do so, fees & charges are applied in accordance with the corporate fees & charges policy.

6.4.4 The HRA is apportioned a share of the Council's investment income managed by the Treasury function. This allocation is based on the HRA's average working balance for the year and the average rate of return achieved in year. This means the HRA is exposed to interest rate risk, the greater the working balance, the bigger impact fluctuations in investment returns will have on income. As investment returns and working balances are expected to reduce over the coming years, income to the HRA will reduce from an estimated £0.739m in 2025/26, to £0.410m in 2027/28, as forecast rates drop from 3.85% to 3.15%.

6.5 Expenditure

6.5.1 The repairs and maintenance costs included within the HRA are the reactive and cyclical repairs. Major programmes of planned maintenance are included within the capital programme. Currently, there is a reliance on a substantial portion of works being carried out by sub-contractors which carries a premium and it is potentially more difficult to control inflationary increases. In addition, as referenced in Section 4, there is an unquantified risk in relation to stock condition. Going forwards, the intention is to continue to build a resilient internal structure to reduce reliance on external contractors and to support the work required around stock condition, whilst over the mid-term it is expected this will generate revenue savings as a result of effective planned maintenance programmes.

6.5.2 Supervision, management and administration includes the costs associated with all aspects of managing the HRA and its tenants, including the costs of providing sheltered housing, running the temporary accommodation hostels, and grounds maintenance. Work is still being undertaken to improve the Council's current performance and position in relation to regulatory landlord requirements and the impact of implementing RSH's consumer standards.

6.5.3 In addition to the interest due on existing self-financing loans, the mid-case budget forecast uses borrowing (modelled at 65% of scheme costs with 35% funded from grants and other funding sources) to support the new homes development programme and right to buy replacements. Match funding requirements to support the Warm Homes Grant scheme also assume a £13m borrowing requirement. Estimates therefore include interest costs to reflect assumed borrowing. As the programmes progress and the business plan develops, borrowing requirements will be kept under continual review to optimise financing options and reflect on future sustainability.

6.5.4 In the proposed budget and business plan, the mid-case scenario is based on funding the repairs and improvement capital programme entirely from annual revenue contributions set aside in the Major Repairs Reserve (MRR), except for the £13m of borrowing required to fund the Warm Homes Grant scheme. Benchmark estimates have been used as a basis for forecasting the cyclical programme, which is based on approximately £52k per property over the 30-year plan, this equates to £14.5m from 2024/25. An additional budget of £2m per year has also been incorporated into the plan to provide funding for adaptations works, for example extensions and disabled facilities, along with £7.1m of additional revenue contributions phased between 2025/26 and 2027/28 for the Warm Homes Grant Scheme. Within the budget, this revenue set-aside is reflected in two lines, Depreciation charge to major repairs and Capital expenditure funded from revenue. Unlike the General Fund, within the HRA, the depreciation that is charged on the assets held by the service (primarily the dwellings themselves) is a real cost to the HRA budget and this expense is transferred to the MRR. The additional revenue contribution to the MRR required to fund the capital programme over and above depreciation is then budgeted for and charged to Capital expenditure funded from revenue.

6.6 Net Budget for 2025/26

6.6.1 The overall net budget position for 2025/26 is a deficit of £3.901m, which will be drawn from the working balance, as set out in Table 1 above. Looking ahead, it is expected that the HRA revenue budget will continue to operate a deficit position year on year, £4.207m, £0.596m and £0.290m for the years 2026/27 to 2028/29 respectively. Longer term, deficits are expected until 2030/31 (year 6) as the additional borrowing to support the Warm Homes wave 3 decarbonisation programme is repaid. From 2031/32 (year 7) annual surpluses are expected to return, however it is important to stress that this is dependent on services maintaining operating efficiency, maximising rent increases, and managing costs effectively. Surpluses generated are entirely for the benefit of the HRA which must be self-sustaining and are therefore essential to ensure the sustainability of the business plan and availability of funding to mitigate unforeseen risks (Performance Measure 4 - Working Balances, as set out in **Appendix A**).

6.6.2 As the Housing service transforms, it is expected that efficiencies will be identified to further support the ambitions of the business plan and the HRA's role in delivering the Housing Strategy. The budget should therefore be considered an evolving process over the coming years.

7.0 RENT SETTING

7.1 North Yorkshire Council aim to set rents at a level that supports the long-term business plan by ensuring there is sufficient resources to manage and maintain our properties, support our tenants and provide capacity for growth to support the Council's commitment to providing more Social Housing. Social Housing is defined in the Housing and Regeneration Act

2008 as:

- low-cost rental accommodation (defined by section 69 of the Housing and Regeneration Act 2008) or
- low-cost home ownership accommodation (defined by section 70 of the Housing and Regeneration Act 2008), or both

and therefore, by definition, rents must remain ‘low cost’. This is achieved by compliance with Government legislation and adherence to the Policy statement on rents for social housing from 1 April 2023, which accompanies the Direction on the rent standard 2019 and Direction on the rent standard 2023, along with the Shared Ownership Rents Reform 2023.

7.2 The intention of Government rent setting policy is that all rents nationally are comparable and set consistently, so that tenants pay a ‘fair’ rent for the property they occupy, given the location of that property. However, the actual rents charged for each dwelling prior to formula rent setting will have differed and rents were not fully harmonised when the concept of formula rent was first introduced. Instead, there was a period of rent convergence whereby actual rent increases were adjusted (upwards or downwards) each year to bring actual rents closer to the calculated formula rents. However, this national rent convergence policy was abolished before rent convergence was complete. As a result, there are still properties that have rents that differ from the formula rent, although in most cases the difference is small. In addition, a rent cap was introduced for one year affecting 2023/24 rents, limiting rents to 7%. Had this amendment in policy not been made, rents could have been increased by up to 11.1% due to high levels of inflation. To bridge the gap between current rents and allowable rent charges, when a property becomes vacant, it can be re-let to a new tenant at formula rent, irrespective of what the previous tenant’s actual rent was.

7.3 The table below sets out the difference between allowable rent charges and actual rents in 2024/25 to illustrate the income shortfall as a result of ending rent convergence and capping rent increases in 2023/24. (Note this is a snapshot at the mid-point of 2024/25 and will fluctuate very slightly as stock movements occur in year).

Table 2 – Rent Gap

	Annual Shortfall *	**% Shortfall**
Harrogate	734,660	3.59%
Selby	751,501	4.71%
Richmondshire	325,858	4.30%
	1,812,020	**4.12%**

***Adjusted for void losses**

7.4 For 2025/26 rent setting, the Government has confirmed allowable rent increases of CPI+1%, which results in a maximum rent increase of 2.7%. A consultation is in progress relating to the proposed rent policy for 2026/27 and beyond. It is recognised there is a need to provide a stable social housing rent policy to enable providers to have sufficient confidence to commit to the level of investment now needed in both new and existing social homes, as set out within this report for North Yorkshire Council. At present, there are no proposals to change the way that initial rents are calculated, but rather a focus on the limits that should apply to annual rent charges and the duration of the rent policy settlement. The current indication is a 5-year settlement, from 1 April 2026 to 31 March 2031 at CPI+1%. This is still no guarantee of certainty, historically deviations from multi-year settlements have been made, limiting rent increases below inflation.

7.5 Given the lack of long-term certainty and the required investment in existing and new stock, it is therefore proposed to apply the maximum allowable rent increase of 2.7% in 2025/26. Proposed average rents (for all house sizes) are set out in Table 3 below:

Table 3 – NYC HRA Rent Levels for 2025/26

	2024/25 average weekly rent (£)	2025/26 average weekly rent after 2.7% increase (£)	Average increase in weekly rent (£)
Harrogate	98.96	101.63	2.67
Richmondshire	95.61	98.20	2.59
Selby	96.40	99.00	2.60

7.6 The 2.7% increase would apply to social, affordable and hostel rents. It should be noted that the small number of shared ownership properties held within the HRA will be subject to a 2% increase, in line with the lease agreements that are in place.

8.0 ALTERNATIVE OPTIONS

8.1 The proposed 2.7% increase in rents is the maximum allowable under Government policy but HRA authorities can consider rent increases below this amount.

8.2 Every 1% below the 2.7% proposed would reduce rental yield by an estimated £417k in 2025/26. After 10 years, this equates to a cumulative loss of £4.722m. Performance metrics at **Appendix A** illustrate the impact of CPI only rent increases for the duration of the 30-year business plan. Borrowing capacity and Debt to turnover would breach thresholds in 2028/29 and would not recover until 2037/28. Working balances would run below the minimum threshold in 2027/28 and would not recover until 2041/42. The impact of this would mean there is no resilience within the business plan for managing risk, (for example worse than anticipated stock condition survey results) and reduced capacity for investment in growth, decent homes standards and decarbonisation.

8.3 The proposed HRA rents remain cheaper than alternative rental options across the County. As a comparison, Table 4 below highlights the average local housing allowance (LHA) rates across the HRA stock areas, plus an average for North Yorkshire. LHA rates are based on private rents being paid by tenants in a broad rental market area. However, a recent analysis from Zoopla indicated that only 4.1% of new private lets within North Yorkshire were within the LHA rates, and in total only 38% of all private tenants were within the rates.

Table 4 – Local Housing Allowance rates in North Yorkshire

	Shared	1 bed	2 bed	3 bed	4+ bed
Harrogate	£72.79	£114.78	£138.66	£161.96	£216.90
Richmondshire	£70.75	£84.10	£103.56	£125.43	£162.25
Selby	£66.04	£105.86	£124.28	£140.10	£193.03
North Yorkshire	**£69.18**	**£97.77**	**£119.71**	**£138.86**	**£180.73**

9.0 LEGAL IMPLICATIONS

9.1 Pursuant to the Local Government and Housing Act 1989 a local housing authority is obliged to keep a Housing Revenue Account (HRA). The HRA is a ring-fenced account within the local housing authority's General Fund. Items that are to be credited and debited to the HRA are prescribed and there are restrictions on the way the account can be operated.

9.2 The Council is required to prepare proposals each year relating to the income from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and designed to ensure that the HRA for the coming year does not show a debit balance, meaning HRA reserves and working balance have been fully depleted and forecast below zero. This report sets out the relevant information considered in reaching the Council's proposals for this year and the forecast working balance **(Appendix A – measure 4)** is key to ensuring the assumptions within this report are compliant with this requirement. The Council should keep its proposals under review and, where necessary, revise those proposals in order to take all reasonable steps to avoid an end-of-year debit balance on the HRA through-out the 30 year business plan.

10.0 FINANCIAL IMPLICATIONS

10.1 The nature of this report is financial, as you would expect from a budget report. As such the financial implications of the HRA budget are set out throughout this report. As highlighted in section 6 above the proposed budget for 2025/26 results in an in-year deficit of £3.901m, which will be drawn from the HRA Working Balance. The budgeted deficit reflects the additional investment that has been built into the business plan to start a major programme of works to bring the HRA stock up to a minimum of EPC-C by 2030, supported by accessing over 50% matched grant funding. Deficits are expected until 2031/32 when the scheme has been fully funded and any temporary borrowing has been repaid. It must be stressed again, that the affordability of the plan is dependent on approving CPI+1% rent increases and maintaining operating efficiency, any increase below CPI+1% would require a reduction to investment plans which are fundamental to supporting tenant welfare standards by improving the quality of homes and services we provide. The performance measures at **Appendix A** illustrate that the business plan is financially sustainable, but focus must be maintained on strong financial management across all areas of the budget.

10.2 As referenced throughout the report, funding of the HRA capital programme is a key feature of the HRA revenue budget and business plan. This budget sets out the forecast revenue resources to support the capital programme for investment and improvements to new and existing stock and the HRA capital plan is included in **Appendix C** for information. However, the development of the detailed programme and monitoring will be reported within the council's capital plan.

11.0 RISKS

11.1 The key risks identified in relation to the HRA budget and business plan are:

- **Cost Pressures** – inflationary increases put financial strain on large parts of the HRA budget, with significant work programmes driven by supply costs for materials and labour. As part of the service transformation for the HRA, one of the mitigating factors will be building our own workforce to reduce reliance on external contractors, along with achieving economies of scale through improved systems and processes over the coming years. In addition, over recent years government policy has allowed rent increases to rise at 1% above CPI, to assist with income keeping pace with cost increases. CPI is a broad measure of inflation which does not necessarily accurately reflect the range of expenses within the HRA. For example, the equivalent inflation index for New Housing Construction stood at 2.4% in September, and an average of 4% pay award has been applied for internal staffing costs.

- **Stock condition** - there is not a complete picture of the condition of the combined stock. For historic reasons, including age, type and planned maintenance programmes, the quality of the stock may vary. This budget includes provision to support a comprehensive programme to gain full coverage of stock condition and prioritise works to ensure failings in compliance standards are addressed. Whilst benchmark estimates have been used to forecast capital expenditure on property major repairs, there is still flexibility within the plan to 'front load' expenditure if required to bring homes up to standard quickly and minimise rent losses through extended void turnaround days.

- **Capacity** – the service has higher than average levels of staff turnover and significant levels of vacancies that undermine the ability to deliver work programmes, and this will be compounded by the aim to grow the workforce to deliver the ambitious plans set out in the business plan. As a larger organisation there is more scope to attract a new workforce as fit for purpose structures have been implemented with career pathways and longer-term opportunities for development. Without the necessary capacity, delivery of priority programmes will be delayed.

- **Rent setting parameters are set by Government** – the government can, and has, changed its policy on how rents can be increased, which can have significant, permanent impacts on the business plan. For example, in 2016 the government announced that it was implementing annual 1% reductions in rents for the four years from 2016/17 to 2019/20. This has permanently reduced the rent levels and reduced income over the medium term by tens of millions of pounds compared to what would have been generated under the previous policy of CPI plus 1%. A Government consultation is underway aiming to address stability in the rent policy, with potential to set out a longer-term direction, the outcome will be reviewed against current business plan assumptions once available. For this budget and MTFP, CPI+1% has been assumed for 6 years from 2025/26, reverting to CPI only from 2031/32 (25/26 + 5 years).

- The discounts available to tenants who can exercise their **right to buy** their property mean that council dwellings continue to be sold at prices significantly under market value, reducing the availability of social housing whilst only generating modest capital receipts for the HRA. As well as reducing the availability of housing, right to buy sales also result in an ongoing cost to the HRA as the rental income that is lost is only partially offset by maintenance cost savings. As referenced in paragraph 3.4, a government consultation in under way to address some of the challenges faced by landlords under the current scheme. Business plan assumptions will be reviewed once any changes are announced, for the purpose of this budget and MTFP, previous assumptions remain that all right to buy sales will be replaced on a 1-1 basis, using available capital receipts, grant funding and borrowing capacity.

- **Regulatory requirements -** Compliance against the consumer standards and all associated legal requirements around the decency and safety and quality of the housing stock is a key priority and should be viewed a core and non-negotiable element of the financial plan. Further to the self-referral the Council has been given a C3 Judgement. This means that it is non-compliant with required standards and is under significant and on-going scrutiny in relation to its progress towards compliance going forward. The RSH has a range of enforcement powers at its disposal including unlimited fines, management orders and interventions and enforced disposal of stock.

- **Tenant Welfare** – This report recommends a rent increase of 2.7% is applied to social, affordable and hostel rents. It is recognised that this increase has the potential to increase levels of financial hardship for tenants. The service has a range of existing tools to support tenants in these circumstances including the provision of financial advice and signposting to ensure the maximisation of entitlement to benefits. The new service structure includes Tenancy Support Officers who have a specific remit to work with tenants in hardship to support them to sustain their tenancies.

12.0 ENVIRONMENTAL IMPLICATIONS

12.1 There are positive environmental implications stemming from this report as existing stock benefits from investment in its fabric and components, resulting in improved energy efficiency. In addition, investment in new builds with improved environmental standards will improve the overall stock position. The decarbonisation of the housing stock is an area of increasing focus as North Yorkshire Council aims to meet government targets to reach EPC-C standards across the whole stock by 2030 and RSH regulatory standards around decent homes for our tenants. Approval of the recommendations within the report will demonstrate a positive commitment to NYC's climate change strategy. Retrofitting buildings to reduce energy demand is a component of the mitigation theme and provides properties that are easier to heat and healthier to live and work in.

13.0 CONCLUSION

13.1 The report sets out the budget and medium-term financial plan for North Yorkshire Council's HRA. Following an independent financial 'Health Check' the budget has been modelled taking into consideration the 'non-negotiable' requirement for the Council to become compliant against the requirements of the consumer standards. The budget also supports the council's wider ambitions in relation to our role as a landlord within the proposed Housing Strategy, including plans to increase the housing stock within measured affordability indicators. The financial plan also includes provisions to ensure the council can go beyond compliant and deliver ambitions to function as an exemplary landlord.

13.2 Whilst the financial outlook is positive, this needs to be balanced with external risk factors which impact on the financial plan, therefore over the coming years focus should be geared towards opportunities for savings and efficiencies to ensure the HRA is sustainable in the long-term.

14.0 RECOMMENDATIONS

14.1 That the Executive:

a) Recommends to Council the approval of the HRA budget for 2025/26 as set out in **paragraph 6.3**, being a net deficit of £3.901m which will be drawn from the HRA working balance;

b) Recommends to Council the approval of the HRA Medium term financial plan for 2026/27 and 2027/28 and the 30-year HRA Business Plan, as set out in **paragraph 6.3** and **Appendix B** respectively;

c) Agrees an increase of 2.7% be applied to social, affordable and hostel rents from 1 April 2025 and recommends this to the Council for approval;

d) Agrees an increase of 2% be applied to shared ownership rents from 1 April 2025 and recommends this to the Council for approval.

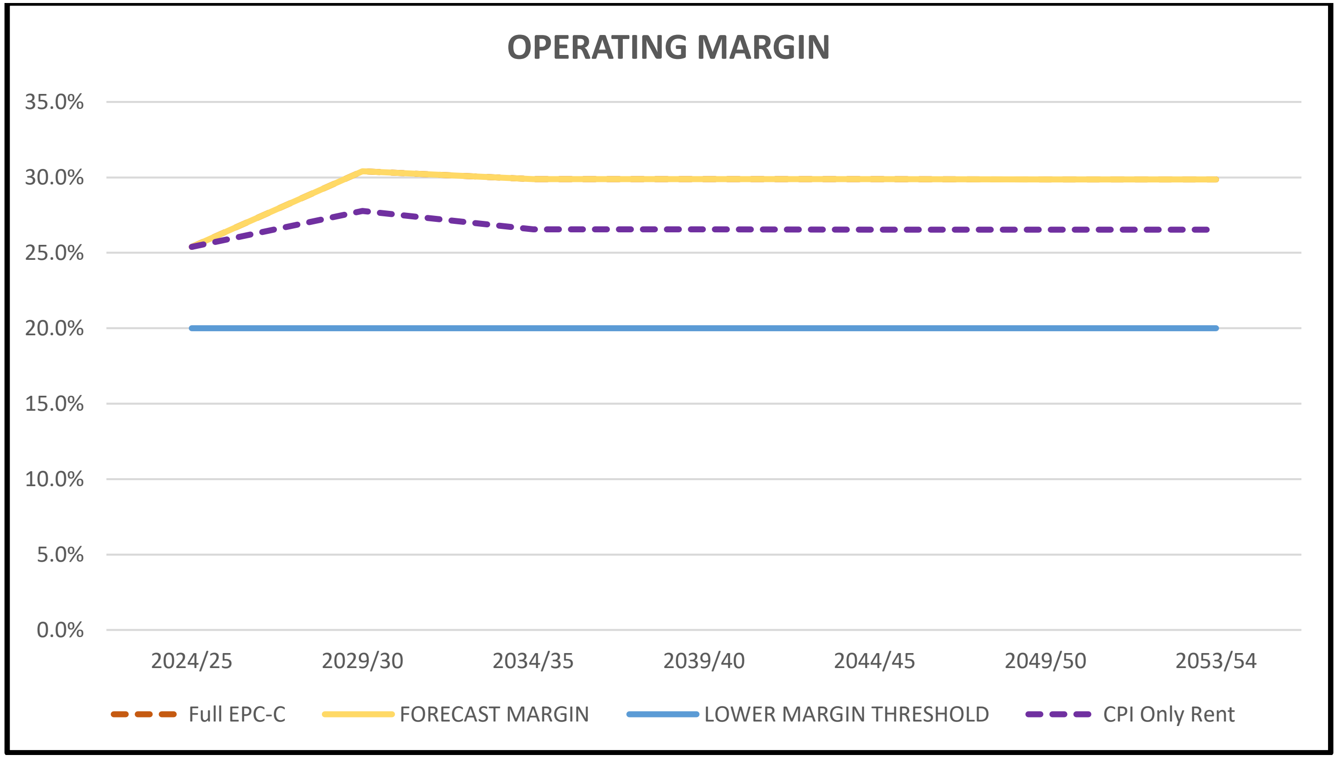
e) Recommends to Council the approval of matched funding to support the Warm Homes Social Fund Wave 3 up to a maximum of £28.9m with a report back to Executive to approve a revised spending plan in the event of a lesser grant award.

PERFORMANCE MEASURE 1 – OPERATING MARGIN

Operating margin is a measure which looks at remaining income after funding operating expenditure, it is an indication of financial efficiency. 20% is considered a comparable benchmark for similar stock holding organisations.

The current HRA position is performing well against the benchmark and results show that in all three scenarios there is headroom above the minimum margin.

There is no difference between the forecast margin (mid-case) and Full EPC-C modelling as operating margin is unaffected by capital expenditure and borrowing. CPI only rent assumptions maintains performance above the benchmark, although narrows the gap by around 3%.



PERFORMANCE MEASURE 2 – INTEREST COVER

Interest cover is used to assess the HRA's ability to service debt interest and is calculated by dividing net operating income by interest costs. It is a standard covenant used by banks for housing providers looking to take new borrowing, usually a cover of 1.10, with a warning trigger at 1.25 deemed acceptable. However, for an additional level of prudence within the Council's plan, a minimum cover of 2.0 has been set as the lower threshold.

All three scenarios maintain cover above the threshold, with the forecast performing best against this measure. As can be seen below, limiting rent increases to CPI only is more detrimental than increasing investment in Full EPC-C coverage, due to its significant impact on rent income which cannot be recovered in later years.

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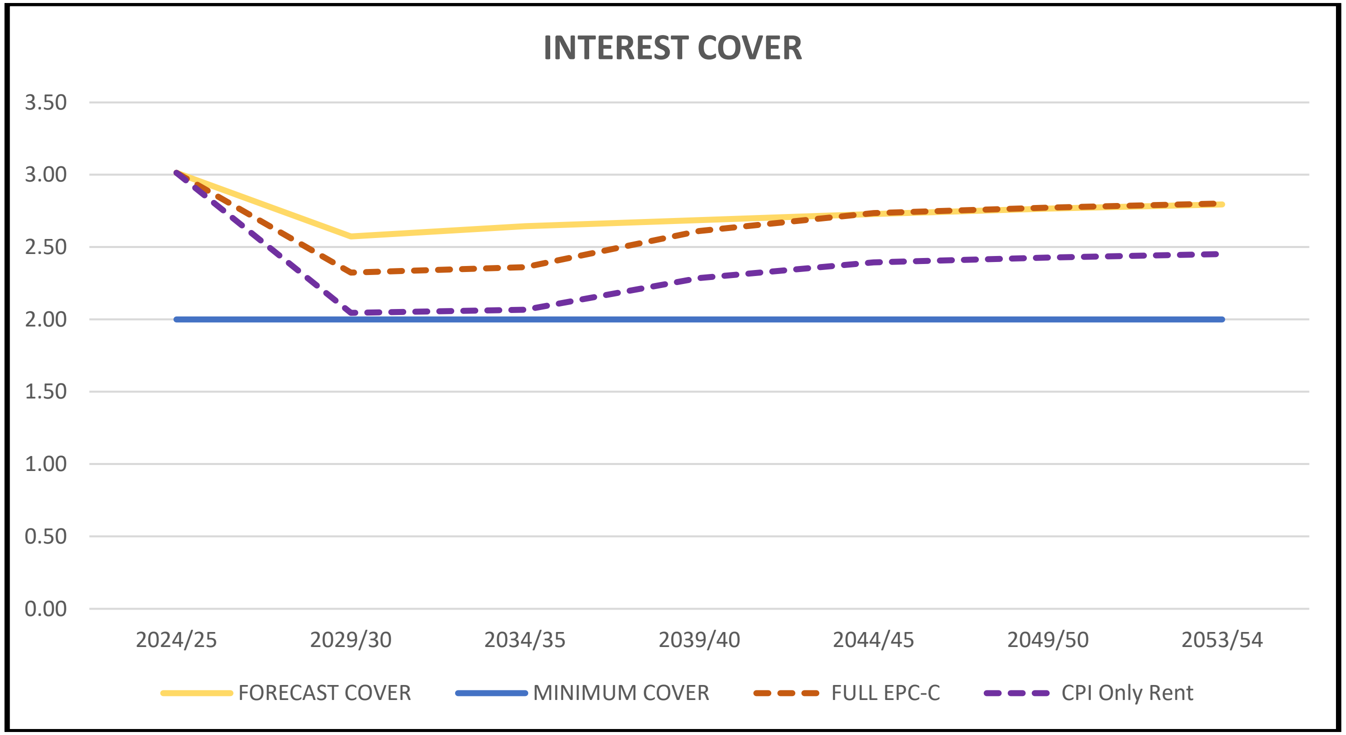
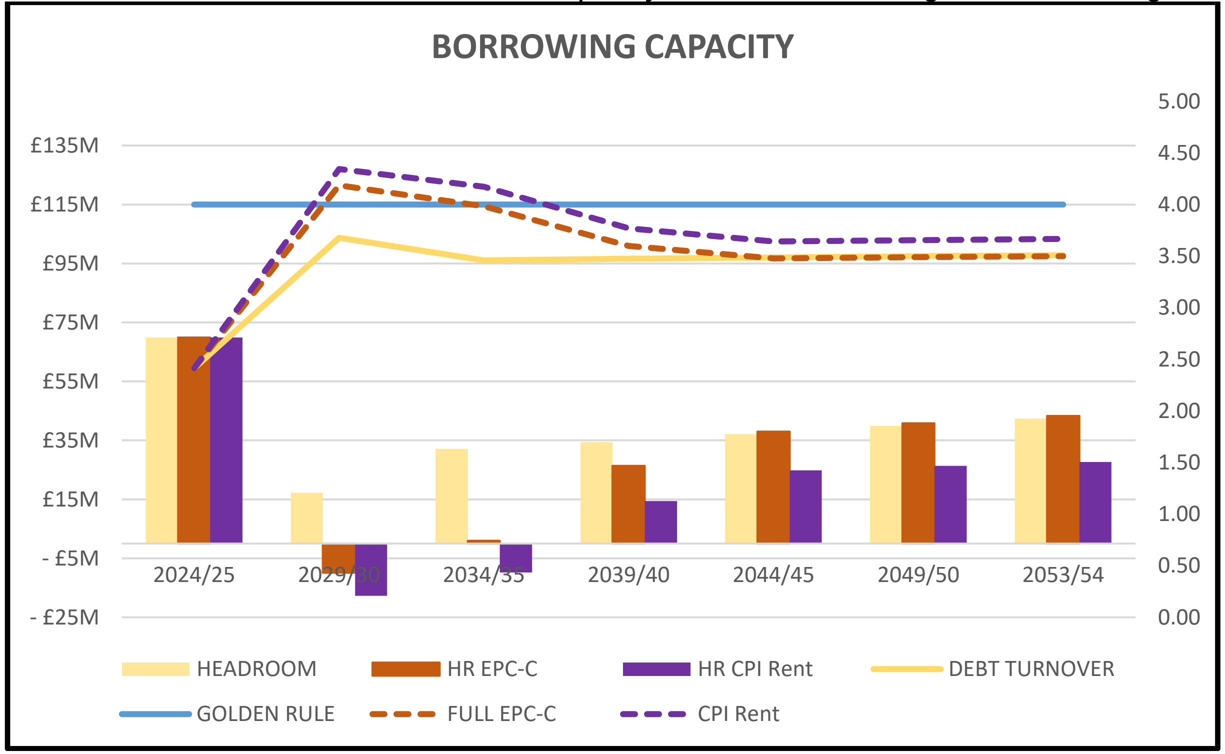


PERFORMANCE MEASURE 3 – DEBT TO TURNOVER AND BORROWING CAPACITY

Debt to turnover in straightforward terms can be understood as 'income multiplier'. It is calculated by taking total debt (measured as HRA capital financing requirement – CFR), divided by gross income. An industry benchmark of 5.5 is considered reasonable, although as with interest cover, for NYC's plan, we have set a lower threshold of 4 to give an additional level of assurance. It is then possible to derive from this calculation borrowing capacity within the business plan, as 4 times gross income. Borrowing capacity less CFR is the borrowing headroom remaining in the plan. The charts below show the projected Debt to turnover versus the 'golden rule' of 4 and shows borrowing headroom within the bar chart.

The mid case scenario remains within the required threshold for the duration of the plan, allowing some flexibility for future business plan risks. Both Full EPC-C and CPI only rent scenarios breach the borrowing capacity thresholds for approximately 10 years between 2029 – 2039. This removes capacity to fund additional growth or manage business plan risks during this period.

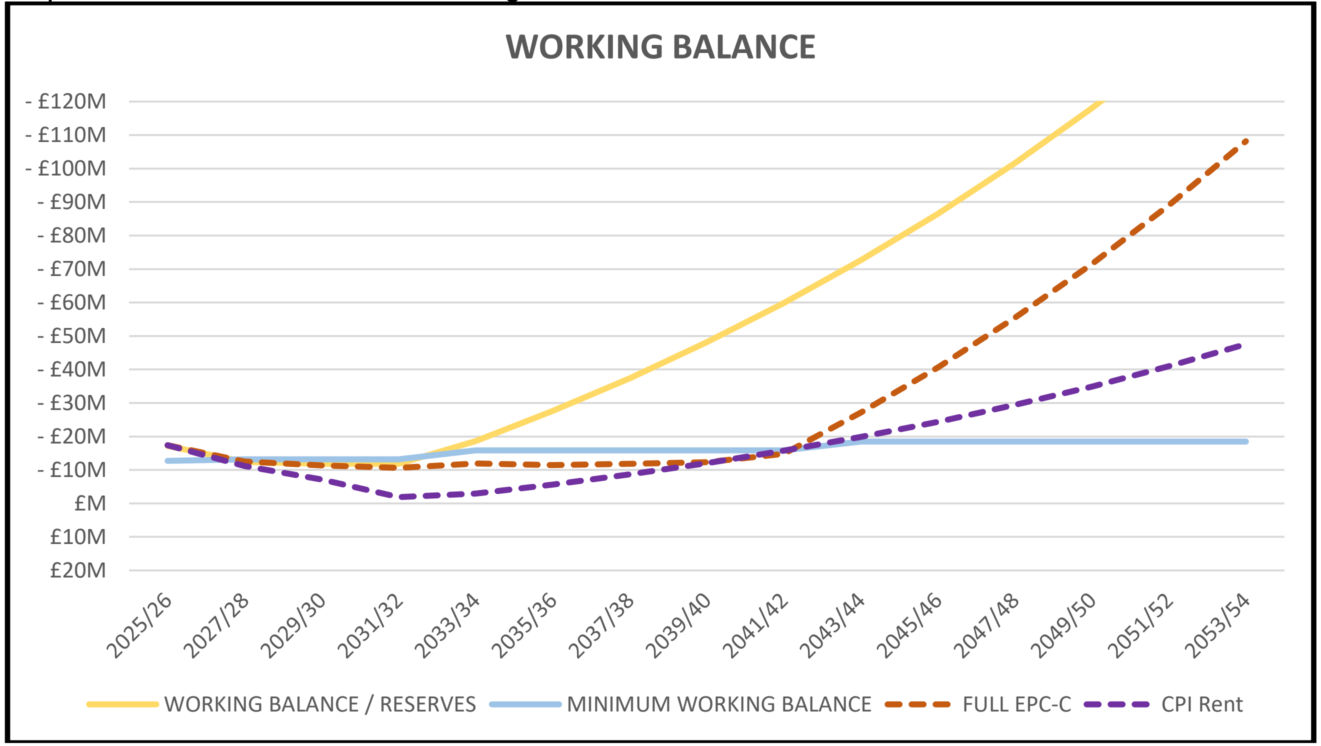


PERFOMANCE MEASURE 4 – WORKING BALANCE / RESERVES

To provide a safety net and provision for unexpected events, a minimum working balance is recommended of £1,500 per property. This is still deemed to be appropriate until the outcome of stock condition work is fully understood.

The tables below present forecast working balances, for this year's Business Plan, all surpluses and deficits are assumed to transfer to/from working balance and no other earmarked reserves have been created. Balances are shown as negative, a positve number represents an overdrawn working balance.

Forecasts show capping rents at CPI only would result in the working balance dipping to around £2m, which would represent around £197 per property and remaining below the threshold until 2041/42. The mid case forecast hovers around the minimum balance, recovering once the funding for 2,700 EPC-C properties conculdes and any associated borrowing repaid. The funding required to meet full EPC-C coverage results in balances below the threshold until around 2042/43.



30-Year Housing Revenue Account Business Plan (Years 1-10)

	Current Year 2024/25 (£'000)	Year 1 2025/26 (£'000)	Year 2 2026/27 (£'000)	Year 3 2027/28 (£'000)	Year 4 2028/29 (£'000)	Year 5 2029/30 (£'000)	Year 6 2030/31 (£'000)	Year 7 2031/32 (£'000)	Year 8 2032/33 (£'000)	Year 9 2033/34 (£'000)	Year 10 2034/35 (£'000)
Income											
Rents (Council Dwellings & Hostels)	(41,744)	(42,847)	(44,695)	(46,724)	(49,329)	(50,809)	(52,333)	(53,380)	(54,447)	(55,536)	(56,647)
Non-dwelling rents	(442)	(456)	(466)	(476)	(485)	(495)	(505)	(515)	(525)	(536)	(547)
Charges for services and facilities	(1,334)	(1,377)	(1,407)	(1,438)	(1,467)	(1,496)	(1,526)	(1,557)	(1,588)	(1,620)	(1,652)
Other income	(512)	(517)	(522)	(532)	(542)	(551)	(561)	(571)	(582)	(592)	(603)
Investment Income	(955)	(739)	(543)	(410)	(310)	(303)	(296)	(294)	(296)	(362)	(466)
Total income	**(44,987)**	**(45,936)**	**(47,633)**	**(49,580)**	**(52,134)**	**(53,655)**	**(55,222)**	**(56,317)**	**(57,438)**	**(58,646)**	**(59,915)**
Expenditure											
Repairs and Maintenance	12,652	13,031	12,818	13,100	13,362	13,967	14,246	14,531	14,822	15,484	15,793
Supervision, Management and Admin	11,116	11,699	11,956	12,219	12,463	12,996	13,256	13,522	13,792	14,375	14,663
Interest Payments	3,710	4,058	4,687	5,445	6,303	6,302	6,290	6,279	6,303	6,407	6,512
Debt Repayment (EIP loan)	1,170	1,200	1,231	1,263	3,796	3,829	4,364	4,399	2,000	0	0
Depreciation charge to Major Repairs	9,084	9,356	9,562	9,772	9,968	10,167	10,371	10,578	10,790	11,005	11,225
Capital Expenditure funded from revenue	5,416	10,492	11,586	8,376	6,532	6,663	6,796	6,932	7,071	7,212	7,356
Total expenditure	**43,148**	**49,837**	**51,840**	**50,175**	**52,424**	**53,925**	**55,323**	**56,240**	**54,777**	**54,483**	**55,550**
Net (Surplus) / Deficit	**(1,839)**	**3,901**	**4,207**	**596**	**290**	**270**	**101**	**(76)**	**(2,661)**	**(4,163)**	**(4,365)**
Opening working balance	(19,285)	(21,124)	(17,223)	(13,015)	(12,420)	(12,130)	(11,860)	(11,759)	(11,835)	(14,496)	(18,660)
Use of working balance	(1,839)	3,901	4,207	596	290	270	101	(76)	(2,661)	(4,163)	(4,365)
Closing working balance	**(21,124)**	**(17,223)**	**(13,015)**	**(12,420)**	**(12,130)**	**(11,860)**	**(11,759)**	**(11,835)**	**(14,496)**	**(18,660)**	**(23,025)**

APPENDIX B

30-Year Housing Revenue Account Business Plan (Years 11-20)

	Year 11 2035/36 (£'000)	Year 12 2036/37 (£'000)	Year 13 2037/38 (£'000)	Year 14 2038/39 (£'000)	Year 15 2039/40 (£'000)	Year 16 2040/41 (£'000)	Year 17 2041/42 (£'000)	Year 18 2042/43 (£'000)	Year 19 2043/44 (£'000)	Year 20 2044/45 (£'000)
Income										
Rents (Council Dwellings & Hostels)	(57,780)	(58,936)	(60,114)	(61,317)	(62,543)	(63,794)	(65,070)	(66,371)	(67,698)	(69,052)
Non-dwelling rents	(558)	(569)	(580)	(592)	(604)	(616)	(628)	(640)	(653)	(666)
Charges for services and facilities	(1,685)	(1,719)	(1,753)	(1,788)	(1,824)	(1,860)	(1,898)	(1,936)	(1,974)	(2,014)
Other income	(613)	(625)	(636)	(647)	(659)	(671)	(683)	(696)	(708)	(721)
Investment Income	(576)	(690)	(810)	(935)	(1,066)	(1,203)	(1,346)	(1,496)	(1,652)	(1,815)
Total income	**(61,212)**	**(62,537)**	**(63,893)**	**(65,279)**	**(66,695)**	**(68,144)**	**(69,625)**	**(71,139)**	**(72,687)**	**(74,269)**
Expenditure										
Repairs and Maintenance	16,109	16,432	16,760	17,095	17,437	17,786	18,142	18,505	18,875	19,252
Supervision, Management and Admin	14,956	15,255	15,560	15,871	16,189	16,512	16,843	17,179	17,523	17,874
Interest Payments	6,619	6,729	6,841	6,955	7,071	7,190	7,311	7,434	7,560	7,688
Debt Repayment (EIP loan)	0	0	0	0	0	0	0	0	0	0
Depreciation charge to Major Repairs	11,450	11,679	11,913	12,151	12,394	12,642	12,894	13,152	13,415	13,684
Capital Expenditure funded from revenue	7,503	7,653	7,807	7,963	8,122	8,284	8,450	8,619	8,791	8,967
Total expenditure	**56,638**	**57,748**	**58,880**	**60,035**	**61,213**	**62,414**	**63,639**	**64,889**	**66,164**	**67,465**
Net (Surplus) / Deficit	**(4,574)**	**(4,790)**	**(5,013)**	**(5,244)**	**(5,483)**	**(5,730)**	**(5,985)**	**(6,249)**	**(6,522)**	**(6,804)**
Opening working balance	(23,025)	(27,598)	(32,388)	(37,401)	(42,645)	(48,128)	(53,858)	(59,843)	(66,092)	(72,615)
Use of working balance	(4,574)	(4,790)	(5,013)	(5,244)	(5,483)	(5,730)	(5,985)	(6,249)	(6,522)	(6,804)
Closing working balance	**(27,598)**	**(32,388)**	**(37,401)**	**(42,645)**	**(48,128)**	**(53,858)**	**(59,843)**	**(66,092)**	**(72,615)**	**(79,419)**

30-Year Housing Revenue Account Business Plan (Years 21-30)

	Year 21 2045/46 (£'000)	Year 22 2046/47 (£'000)	Year 23 2047/48 (£'000)	Year 24 2048/49 (£'000)	Year 25 2049/50 (£'000)	Year 26 2050/51 (£'000)	Year 27 2051/52 (£'000)	Year 28 2052/53 (£'000)	Year 29 2053/24 (£'000)	Year 30 2053/24 (£'000)
Income										
Rents (Council Dwellings & Hostels)	(70,433)	(71,842)	(73,279)	(74,744)	(76,239)	(77,764)	(79,319)	(80,905)	(82,524)	(84,174)
Non-dwelling rents	(680)	(693)	(707)	(721)	(736)	(750)	(765)	(781)	(796)	(812)
Charges for services and facilities	(2,054)	(2,095)	(2,137)	(2,180)	(2,223)	(2,268)	(2,313)	(2,359)	(2,407)	(2,455)
Other income	(735)	(748)	(762)	(776)	(790)	(805)	(820)	(835)	(850)	(866)
Investment Income	(1,985)	(2,163)	(2,348)	(2,540)	(2,741)	(2,950)	(3,168)	(3,394)	(3,630)	(3,875)
Total income	**(75,887)**	**(77,541)**	**(79,232)**	**(80,962)**	**(82,729)**	**(84,537)**	**(86,385)**	**(88,275)**	**(90,207)**	**(92,182)**
Expenditure										
Repairs and Maintenance	19,637	20,030	20,431	20,839	21,256	21,681	22,115	22,557	23,008	23,468
Supervision, Management and Admin	18,231	18,596	18,968	19,347	19,734	20,129	20,531	20,942	21,361	21,784
Interest Payments	7,819	7,953	8,089	8,228	8,370	8,514	8,662	8,812	8,966	9,122
Debt Repayment (EIP loan)	0	0	0	0	0	0	0	0	0	0
Depreciation charge to Major Repairs	13,957	14,237	14,521	14,812	15,108	15,410	15,718	16,033	16,353	16,680
Capital Expenditure funded from revenue	9,147	9,330	9,516	9,706	9,901	10,099	10,301	10,507	10,717	10,931
Total expenditure	**68,791**	**70,144**	**71,525**	**72,932**	**74,368**	**75,833**	**77,326**	**78,850**	**80,404**	**81,985**
Net (Surplus) / Deficit	**(7,096)**	**(7,397)**	**(7,708)**	**(8,029)**	**(8,361)**	**(8,705)**	**(9,059)**	**(9,425)**	**(9,803)**	**(10,197)**
Opening working balance	(79,419)	(86,514)	(93,911)	(101,619)	(109,648)	(118,010)	(126,714)	(135,773)	(145,198)	(155,000)
Use of working balance	(7,096)	(7,397)	(7,708)	(8,029)	(8,361)	(8,705)	(9,059)	(9,425)	(9,803)	(10,197)
Closing working balance	**(86,514)**	**(93,911)**	**(101,619)**	**(109,648)**	**(118,010)**	**(126,714)**	**(135,773)**	**(145,198)**	**(155,000)**	**(165,197)**

APPENDIX C

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

	2024/25	2025/26	2026/27	2027/28	Later Years	TOTAL
PROGRAMME OF WORKS:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
HS DECENT HOMES	6,000	12,000	12,000	12,000	12,000	54,000
HS MAJOR ADAPTATIONS	750	2,000	2,000	2,000	2,000	8,750
HOUSING DELIVERY PLAN (HRA)	5,500	12,350	17,230	21,690	56,896	113,665
RIGHT TO BUY REPLACEMENT	2,880	10,565	5,586	5,726	5,726	30,483
HS CIVILS	500	2,505	-	-	-	3,005
SHDF 2.2 & 2.3	3,817	21,415	21,415	21,415	-	68,062
HS RETROFIT	8,351	-	-	-	-	8,351
HS COMPLIANCE	250	2,500	2,500	2,500	2,500	10,250
EXPENDITURE	**28,048**	**63,335**	**60,731**	**65,331**	**79,122**	**296,566**
FUNDED BY:						
GRANTS	- 3,509	- 15,979	- 17,740	- 19,215	- 19,075	- 75,518
DIRECT REVENUE FUNDING & MRR	- 20,072	- 28,653	- 21,147	- 18,148	- 16,500	- 104,521
CAPITAL RECEIPTS	- 943	- 4,359	- 2,322	- 2,511	- 3,201	- 13,336
SECTION 106 CONTRIBUTIONS	-	- 217	- 143	- 360	- 1,486	- 2,205
BORROWING REQUIREMENT	**3,524**	**14,126**	**19,380**	**25,097**	**38,860**	**100,987**