

NORTH YORKSHIRE COUNCIL

EXECUTIVE

20 JANUARY 2026

HOUSING REVENUE ACCOUNT BUDGET 2026/27 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 2026/27, HRA Medium-term Financial Plan (MTFP) for 2027/28 to 2028/29 and 30-year HRA Business Plan.
1.2	Agree the rent increases to be applied for 2026/27 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 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 In response to the C3 judgement, NYC's Housing Improvement Plan (HIP) was developed and there has been on-going dialogue and scrutiny with the Regulator to evidence progress towards improvements. NYC has continued to work with a specialist consultancy firm to give independent assurance and challenge on the HIP, and how well it can demonstrate it is meeting RSH's consumer standards and addressing priorities agreed with the Regulator.

2.5 In addition, the Housing Delivery programme continued with £111m of investment to support the delivery of 500 additional homes, plus the replacement of stock lost through Right to Buy.

3.0 CURRENT POSITION

3.1 The need for the Council to be compliant against the Regulatory standards remains 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 within the Housing Improvement Plan. Governance arrangements are now embedded including a Housing Improvement Board and the Housing and Leisure Overview and Scrutiny Committee. New structures for tenant involvement and engagement are established, with regular tenants' forum meetings. A tenant census is underway to ensure we understand our tenants to enable support to be delivered in a way that meets their needs. In addition, a range of activity is on-going to address the areas of non-compliance including a programme of stock condition surveys and the development of management plans and procedures around health and safety requirements. A programme of policy updates has been underway, with many approved, including the new lettable standard and disrepair policy, with a number in development. There has been a continuing emphasis in key service areas, including for example tackling anti-social behaviour and improving the approach to complaints handling and changing culture. Levels of data assurance are improving, with significant progress to move towards a unified asset management system, compliance is improving overall, and tenant satisfaction levels are improving.

3.2 As a consequence of improving communication channels with tenants, including ways to report repairs, reviewing the outcome of completed condition surveys and improving lettable standards, demand had increased across the board, in particular repairs demand has increased by over 100%. In addition, to date, approximately 36% of homes surveyed also require capital works, with the sample size now big enough to extrapolate out as an average for the whole stock. Lettable standards have improved, however void turnover has slowed down due to capacity, currently running at over double historic levels (round 6%). Seven new contractors have

been appointed to manage current demand. Assurance around data and use of systems remains the number one challenge, with significant future development still required on asset management, along with a unified housing management system. Workarounds in place are fragile and resource intensive to manage.

3.3 An independent progress review was undertaken in November 2025 against all the consumer standards. Whilst highlighting the positive direction of travel made, the key findings include:

- Insufficient capacity, particularly around the repairs and maintenance function, strategic asset management, and compliance work.
- Overall insufficient capacity to drive forward levels of change needed
- The need for better assurance and governance around data
- The need to accelerate systems development/integration and the need for a long-term IT strategy.
- The need to further bolster complaint handling
- Evidencing the impact and outcomes of changes made.

3.4 In other key areas of government policy in relation to the HRA, the Autumn Budget 2024 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 several 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, the impact of this is being seen in 2025/26, with the number of expected sale completions forecast at 126, around 100 more than an average year. This has had an impact on the 'additionality' created by the Housing Delivery programme and capital programme budgets have been reforecast accordingly. Longer term, this reduction in the maximum discount will be beneficial to supporting NYC's ambitions to increase the supply of social housing, by potentially slowing down the rate of sold properties, plus retaining greater capital receipts for those which are sold.

3.5 A 'Reforming the Right to Buy' consultation was also undertaken seeking views on a range of other measures to deliver a fairer and more sustainable scheme. Whilst new legislation is required to implement some of the proposals, plans include more exemptions around newly built housing and investment, increase eligibility requirements (10-year public sector tenant, rather than the current 3 years, and exclusions around anyone previously benefitting for RTB). Enhanced flexibilities on the use of retained receipts

with other sources of funding from 2026/27 to assist with viability of new build and acquisitions with the aim to accelerate delivery of replacement homes.

4.0 BUSINESS PLAN CONSIDERATIONS FOR 2026/27 BUDGET AND MTFP

4.1 As referenced in **paragraphs 3.1 to 3.3**, significant progress has been made on the HIP, but it is evident that additional resources are required to manage the peak of demand across the HRA. As such a resource plan is proposed within the budget to address remaining challenging areas and support the service until operations return to a steady state. Key areas include increased capacity for responsive repairs and capital repairs, balanced between in-house and external contractors to provide resilience and flexibility. Resources to support service improvement, central support resources and Landlord services aimed at tenant experience, supporting estate management and activities co-ordinators. Whilst a detailed business case needs to be developed with preferred routes for delivery, funds have also been earmarked to support development and implementation of a single Housing Management system and fully developed Asset Management System. The tables below set out the proposed additional investment, net of the growth in rent income proposed in paragraphs 4.2 and 4.3 below:

Table 1: New Revenue Investment

Service Area	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)	2029/30 (£'000)	2030/31 (£'000)	Total (£) (£'000)
Repairs & Maintenance	3,779	3,801	3,825	1,500	1,500	14,405
Supervision & Management	620	619	444	288	232	2,203
Rent Income *	676	43	(606)	(1,268)	(1,691)	(2,846)
Total	5,075	4,463	3,663	520	41	13,762

* Void loss over base est.	676	465	240	0	0	1,381
* Rent Convergence	0	(422)	(846)	(1,268)	(1,691)	(4,227)

Table 2: New Capital Investment

Service Area	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)	2029/30 (£'000)	2030/31 (£'000)	Total (£) (£'000)
Repairs & Maintenance	3,000	3,000	1,000	0	0	7,000
Supervision & Management	400	300	300	0	0	1,000
Total	3,400	3,300	1,300	0	0	8,000

4.2 Within the context of the above position, opportunities to deliver cashable savings in the short term are limited. An extensive programme of procurement has been undertaken across the service, to ensure current

contracts are fit for purpose and have been assessed for value for money, rationalising multiple service contracts from legacy areas. Any unit cost savings that have been achieved are required to support increasing demand and cost pressures to meet regulatory requirements. That said, longer term, as systems and processes are aligned, there is significant potential for future efficiencies against the current operating cost. Current systems do not allow the service to operate in a unified way, which has increased resource requirements to allow the service to bring key reporting elements together. Additionally, with the development of a fully functioning asset management and tenancy system, proper insights can be developed to enable accurate forecasting and scheduling of works, optimising economies of scale and proactive management to minimise reactive costs. The extensive retrofit programme that is currently underway, both within the Social Housing Decarbonisation Programme and standard Housing Standards capital plan is expected to deliver longer term efficiencies against stock management costs, through better insulated homes, with improved damp prevention and modern heating systems.

4.3 Social Housing landlords, including local authorities received more certainty around rents following the 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. The new policy allows landlords to increase rents by CPI+1%, with a commitment for this to be in place for a minimum of 10 years. The base budget assumptions have therefore been based on CPI+1% for 10 years (from 2026/27), which is an additional 5 years against existing budget assumptions.

4.4 In addition, it is recommended that rent convergence is implemented at the maximum allowable following the expected announcement from government (at the time of writing this report this has yet to be released). Possible outcomes are likely to be £1 or £2 per week, for the purposes of budget modelling, £1 per week has been assumed.

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)

The three scenarios are set out below:

5.1.1 Mid Case (Base position for budget assumptions)

- Continue Housing Delivery Programme
- Rent inflation Consumer Price Index (CPI)+1% for 10 years, reverting to CPI in year 11.
- Rent convergence is implemented at the maximum allowable from

27/28 (modelled at £1 per week until confirmation announced)

- 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).

5.1.2 Alternative Scenario 1 – rent capped at CPI only with no convergence

Assumptions per base position, except:

- Rent increase set in line with inflation for the duration of the 30-year business plan
- No rent convergence implemented

5.1.3 Alternative Scenario 2 – permanent base budget growth

Assumptions per base position, except:

- Short term growth to support the Housing Improvement Programme isn't paired back once activity resumes at a steady state

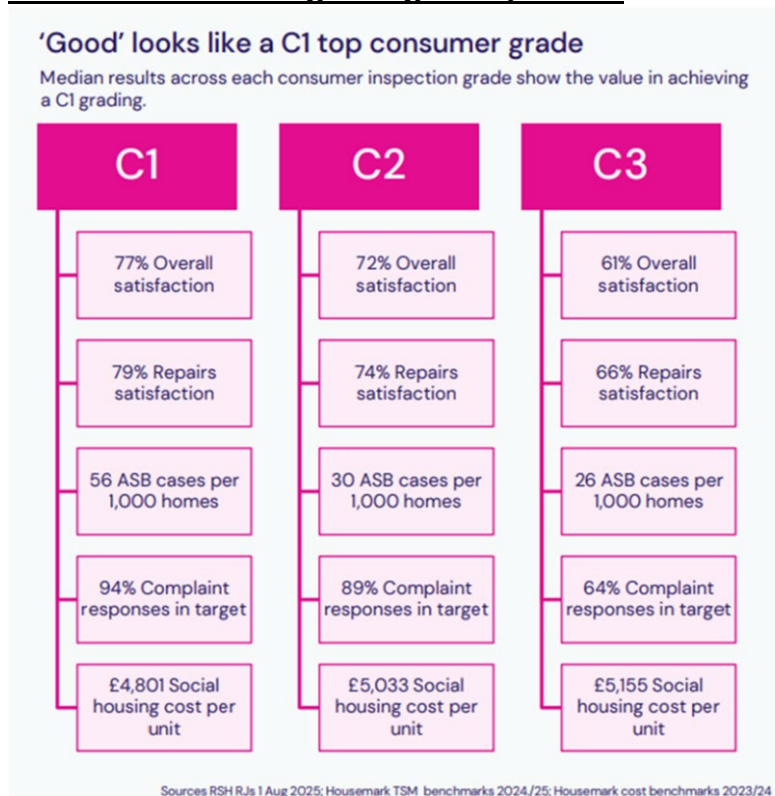
5.2 The financial assessment of the three scenarios is supported by key business plan metrics or 'golden rules' which have been developed to assist with managing risk in the context of business planning, focusing on liquidity, resilience and sustainability. These metrics or 'golden rules' are complementary 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-base case budget assumptions, to approve rent increases at CPI+1% and implement rent convergence at the maximum allowable. This also incorporates additional revenue capacity of £13.76m (net of rent convergence increases) and £8m capital over the next 5 years, as set on in **paragraph 4.1** above. Non-growth borrowing is supported, with an 8-year repayment plan starting from year 8. Rent increases below this level, as per Alternative scenario 1, would result in working balances falling below our required threshold in the mid-term, with estimates showing this would not recover until 2047/48. No repayment plan would be possible for non-growth borrowing until the working balance position recovers. This would require a reduction in vital spending plans to improve stock condition and service standards, to bring back to acceptable levels. Alternative scenario 2, demonstrates that the short-term additional capacity must remain short term as this is also forecast to breach working balance metrics without undertaking non-growth borrowing which cannot start repayment for 15 years and take a further 18 years to repay in full.

5.4 Along with the 4 financial resilience metrics now embedded within HRA Business planning, as data improves and NYC can undertake more in-depth benchmarking activity, 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

5.5 Table 3 below sets out average costs per unit across each consumer inspection grade to show the relative value in achieving a C1 grading. High performing providers demonstrate more efficient services in relation to cost per unit. Comparable 2023/24 data for NYC cost per unit was £4,475. This highlights historical under investment, given the known regulatory and stock condition challenges. Whilst budget proposals require short to mid-term increased investment to ensure the HIP can be delivered and improve our C3 rating, by year 2031/32, the equivalent cost per unit is forecast at £4,836, placing NYC between C1 and C2 gradings and is therefore a useful indicator that forecast performance is aligned with forecast expenditure.

Table 3: Consumer grading cost per unit



6.0 HRA REVENUE BUDGET SUMMARY

6.1 The budget that follows has been developed based on the Base Case scenario above, inclusive of the additional investment in key priority areas, highlighted in paragraph 4.1.

- 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 2026/27 to 2028/29 is set out below in Table 4. Current estimates show a projected deficit in year 2026/27 of £0.890m, and £0.567m in 2027/28, with a surplus of (£0.396m) in 2028/29. The longer-term financial outlook is attached at Appendix B, which shows the 30-year HRA business plan estimates with revenue surpluses expected to continue throughout the plan. Timing for the repayment of non-growth borrowing (VRP) is planned against maintaining working balance requirements.

Table 4: Revenue Budget Summary

	CY			
	Forecast 2025/26	Year 1 2026/27	Year 2 2027/28	Year 3 2028/29
FORECAST PER BUDGET ESTIMATES:	(£'000)	(£'000)	(£'000)	(£'000)
Income				
Rents (Council Dwellings & Hostels)	(41,406)	(43,819)	(46,562)	(49,958)
Non-dwelling rents	(413)	(429)	(438)	(447)
Charges for services and facilities	(1,316)	(1,366)	(1,396)	(1,424)
Other income	(65)	(60)	(60)	(60)
Investment Income	(800)	(471)	(443)	(337)
Total income	(44,000)	(46,145)	(48,899)	(52,226)
Expenditure				
Repairs and Maintenance	18,872	19,455	19,824	20,168
Supervision, Management and Admin	8,675	10,189	10,398	10,419
Interest Payments	3,845	4,460	5,400	5,334
Debt Repayment (EIP loan)	1,200	1,231	1,263	1,296
Depreciation charge to Major Repairs	9,393	9,750	9,964	10,164
Capital Expenditure funded from revenue	8,903	1,950	2,616	4,451
Total expenditure	50,888	47,035	49,466	51,831
Net (Surplus) / Deficit	6,888	890	567	(396)
Opening working balance	(21,838)	(14,950)	(14,059)	(13,492)
Use of working balance	6,888	890	567	(396)
Closing working balance	(14,950)	(14,059)	(13,492)	(13,888)

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 Rent income is also affected by void property numbers, which has seen an increase since 2024/25, primarily as a result of properties being held for repairs and retrofit works, rather than delays in lettings. As referenced in paragraph 4.1 this is an area of focus for additional resources requested within this budget report, with a target to bring void levels back to 2.5% by 2028/29. The budget for void losses in 2026/27 is £1.582m, based on a 3.5% target.

6.4.4 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.

6.4.5 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 £0.471m in 2026/27, to £0.337m in 2028/29, as forecast rates drop from 3.75% to 3.25%.

6.5 Expenditure

6.5.1 The repairs and maintenance costs included within the revenue budget are the reactive and cyclical repairs, along with costs associated with health and safety compliance (such as electrical testing and gas safety certificates). Major programmes of planned maintenance are included within the capital programme. As a result of proactive repairs management, improving service standards and additional costs associated with legislative compliance requirements, a number of pressures have emerged within repairs and maintenance, and therefore this budget includes additional capacity of £3.78m from 2026/27, reducing to £1.5m by 2030/31 to manage the peak in short term activity required over the next 3 years to bring the service back to a steady state, and ensure sufficient resources are in place to maintain standards in the long term.

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 and hostels, managing tenant engagement and antisocial behaviour issues, and is responsible for

collection of Housing rents. Activity within the HIP to improve the Council's current performance and position in relation to regulatory landlord requirements and consumer standards is focussed on understanding our tenants, ensuring meaningful engagement is undertaken, complaints handling and aligning policies to ensure tenants received the same standards of service, no matter which area they live in. As a result, this budget includes additional capacity of £0.62m in 2026/27, reducing to £232k by 2030/31 to support the short term activity required to focus on improvement activities.

- 6.5.3 In addition to the interest due on existing self-financing loans, the HRA also pays interest on any internal borrowing (the HRA's capital financing 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 Within the capital plan, expenditure is funded by a combination of HRA revenue contributions, capital receipts, other funding sources such as grant and borrowing. The revenue contribution set-aside is reflected in two lines, Depreciation charge to major repairs and Capital expenditure funded from revenue (CERA). 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 Major Repairs Reserve (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 CERA. From 2026/27, CERA is notably lower than would usually be expected, this is due to borrowing being undertaken whilst revenue resources are diverted to supporting additional capacity in the revenue budget.

6.6 Net Budget for 2026/27

- 6.6.1 The overall net budget position for 2026/27 is a deficit of £0.890m, which will be drawn from the working balance, as set out in Table 4 above. Looking ahead, it is expected that the HRA revenue budget will continue to operate a deficit position in 2027/28 of £0.567m. Surpluses are expected to return in 2028/29 and currently forecast at (£0.396m), however it is important to stress that this is dependent on services operating within agreed budgets, as any overspends within this plan result in additional borrowing requirement, and will therefore be subject to appropriate challenge. 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 Whilst significant progress has been made, the Housing service continues to transform, and 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 for social rented properties and actual rents in 2025/26 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 2025/26 and will fluctuate very slightly as stock movements occur in year).

Table 5 – Rent Gap

	Annual Shortfall *	% Shortfall
Harrogate	990,824.28	4.72%
Selby	755,160.62	4.61%
Richmondshire	297,932.26	3.69%
	2,043,917.15	4.50%

***Adjusted for void losses**

7.4 Following the recent consultation as part of the 2024 Autumn budget, the government's policy statement on rents for social housing from 1 April 2026/27 onwards has been published and is to remain in effect for at least 10 years. 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. Under the policy, registered providers may increase actual weekly rents by up to CPI+1% + up to (£1/£2) in any year where actual weekly rents are below formula rent. At the time of writing, the + (£1/£2) element is still awaiting announcement, as this relates to the re-introduction of rent convergence. 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 4.8% in 2026/27, along with maximum rent convergence allowable. Proposed average rents (for all house sizes, excluding shared ownership) are set out in Table 6 below:

Table 6 – NYC HRA Rent Levels for 2026/27

	2025/26 average weekly rent (£)	2026/27 average weekly rent after 4.8% increase (£)	Average increase in weekly rent (£)
Harrogate	101.97	106.87	4.89
Richmondshire	98.24	104.19	4.72
Selby	99.42	102.96	4.77

7.6 The 4.8% 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 4.8% + (£1/2 TBC) 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 4.8% proposed would reduce rental yield by an estimated £418k in 2026/27. After 10 years, this equates to a cumulative loss of £4.098m. Performance metrics at **Appendix A** illustrate the impact of CPI only rent increases for the duration of the 30-year business plan. Most notably, working balances would run below the minimum threshold in 2027/28 and would not recover until 2039/40. This coupled with borrowing capacity dropping to £14.6m in 2029/30 demonstrates there would be minimal resilience within the business plan for managing risk. Given there is still uncertainty around the full scope of work that is required to bring stock up to standard, and importantly, maintain standards in the long term, this option would present too greater risk to the long-term sustainability of the Business Plan.
- 8.3 The proposed HRA rents remain cheaper than alternative rental options across the County. As a comparison, Table 7 below highlights the average local housing allowance (LHA) rates across the HRA stock areas, plus an average for North Yorkshire. This is representative of the Housing Benefit allowances for rents in these areas. Market rents are significantly higher than LHA rates in most areas of the County, with affordability being particularly challenging in the Harrogate area.

Table 7 – 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 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 2026/27 results in an in-year deficit of £0.890m, 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 continue to drive the Housing Improvement Programme. An annual budget surplus of (£0.396m) is forecast in 2028/29, with surpluses expected thereafter. This is reliant on utilising borrowing capacity to support the capital programme in the short term. The affordability of the plan is dependent on approving CPI+1% rent increases plus the maximum allowance for rent convergence. Any increase below CPI+1% would erode resilience against known and future risks, potentially leading to 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. The latest government policy has allowed rent increases to rise at 1% above CPI, to assist with income keeping pace with cost increases, but also to provide a level of assurance for providers investing in new stock. 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 3.3% in September, and an average of 4% pay award has been applied for internal staffing costs.
- **Stock condition** – Condition surveys are progressing in line with

target to gain full coverage by mid-year 2026/27, circa. 4000 surveys have been completed to date (around 48%). Results indicate around 36% of homes surveyed require capital works, along with lower-level responsive repairs being recorded for action. This along with an improved system for tenants to log repairs has resulted in around 1,000 additional responsive repairs being logged each month, which cannot be met with existing capacity. Additional investment proposed within this budget aims to double existing capacity to address the backlog over the next three years, with priority geared towards repairs which pose health and safety risk to ensure regulatory standards can be upheld. In addition, additional resource requirements have been identified to develop strategic and operational asset management plans, which will utilise data being captured to formulate the mid to long term maintenance programme.

- **Capacity** – As referenced above, current capacity is not sufficient to meet the current service demands and drive improvements required within the HIP, with additional short-term investment required. The housing standards team, which are predominantly trades related roles typically had higher than average levels of staff turnover and vacancies (previously budgeted at 10%). However, as a larger organisation the scope to attract a new workforce as fit for purpose structures have been implemented with career pathways and longer-term opportunities for development, the team is running with minimal vacancy rates, with further capacity required. The service also recognised the age demographic of the team, with a large portion of staff currently in the 50+ bracket. It is therefore expected that given the nature of the work, there will be opportunity to scale back resources with natural turnover.
- **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%. New government policy aims to address stability in the rent policy, currently committing to CPI+1% for a minimum of 10 years. There is also commitment to re-introduce rent convergence, at the time of writing, announcement is still awaited for the level allowed (£1 or £2 per week). For this budget and MTFP, CPI+1% has been assumed for 10 years from 2026/27, with rent convergence at £1 per week from 2027/28.
- Changes to the discounts available to tenants who can exercise their **right to buy (RTB)**, along with additional eligibility measures resulted in a spike of applications during 2024/25, before the changes came into force. The effect of this is being seen in 2025/26, with expected completions expected to reach 129, around 100 more than previous expectations. Whilst it is expected that longer term the changes will

result in fewer RTB applications, it has not been possible to keep pace with 1-1 replacement of properties in these numbers, based on 100 properties at an average rent of £100 per week, the annual rent loss equates to £520k. Additional flexibilities for the use of RTB receipts coming into force in 2026/27 will support the viability for acquiring replacement properties, which could help to ramp up the pace of replacements over the coming years.

- **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. The current regulator C3 judgement means that NYC is non-compliant with required standards and is under significant and on-going scrutiny in relation to its progress towards compliance going forward. Whilst significant progress has been made, there is more to do to within the HIP, as such additional investment requirements to address remaining risks feature as a key component of the 2026/27 budget report. 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 4.8% 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. In addition, scheduled programmes of work contained within this report and the capital plan, include extensive retrofit and decarbonisation measures, supported by DESNZ Social Housing Decarbonisation Fund, which will both help to reduce fuel poverty but also ensure council homes can be kept warm and free from damp and mould.
- **Grant Funding** – Assumptions contained within this report and capital plan include programmes of work with significant reliance on external grant funding. The council has been awarded £21.93m DESNZ social housing decarbonisation funding, with co-funding requirements of £18.61m. This is a significant boost to internal resources to progress with government targets on energy efficiency measures and improve council stock but requires adequate oversight to ensure the programme delivery can be achieved and grant conditions are satisfied, so funding is not at risk. In addition, the Housing delivery programme funding now places greater reliance on external grant sources. There is clear commitment from government with the latest round of Social and Affordable Homes programme funding to support housing delivery and allowances being made to combine with RTB receipts but it remains a risk within the programme deliverability as each scheme is subject to application on a case-by-case basis, and therefore cannot be

guaranteed.

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 review of progress towards the Housing Improvement Programme, 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 2026/27 as set out in **paragraph 6.3**, being a net deficit of £0.890m which will be drawn from the HRA working balance;
- b) Recommends to Council the approval of the HRA Medium term financial plan for 2027/28 and 2028/29 and the 30-year HRA Business Plan, as set out in **paragraph 6.3** and **Appendix B** respectively;
- c) Agrees rent convergence is implemented at the maximum allowable for all properties on Social (Formula) rent as soon as practically feasible and recommends this to the Council for approval;
- d) Agrees an increase of 4.8% be applied to social, affordable and hostel rents from 1 April 2026 and recommends this to the Council for approval;
- e) Agrees an increase of 2% be applied to shared ownership rents from 1 April 2026 and recommends this to the Council for approval.