

This Report will be made public on 4 February 2025.

Report Number **C/24/70**

To: Cabinet
Date: 12 February 2025
Status: Key Decision
Head of Service: Lydia Morrison, Interim Director - Governance and Finance
Cabinet Members: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance.
Councillor Rebecca Shoob, Cabinet Member for Housing and Homelessness

SUBJECT: **DRAFT HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2025/26 & HOUSING RENT SETTING BUDGET REPORT 2025/26**

SUMMARY: This report sets out the Housing Revenue Account ('HRA') Revenue and Capital Budget for 2025/26, Housing Revenue Account ('HRA') Rent Setting for 2025/26 and proposes an increase in weekly rents and an increase in service charges for 2025/26, both for approval by both Cabinet and Council for recommendation to Council.

REASONS FOR RECOMMENDATION:

The Committee is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self-financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

RECOMMENDATIONS:

1. To receive and note Report C/24/70.
2. To approve the Housing Revenue Account Budget for 2025/26 (Refer to paragraph 2.1 and Appendix 1) and recommend to Full Council.
3. To approve the Housing Revenue Account Capital Programme budget 2025/26 (Refer to paragraph 3.1 and Appendix 2) and recommend to Full Council.
4. To approve the Housing Revenue Account Medium Term Capital Programme budget to 2029/30. Refer to paragraph 3.3 and Appendix 3) and recommend to Full Council.

5. To approve the increase in rents of dwellings within the HRA on average by £2.79 per week, representing a 2.7% increase with effect from 7 April 2025 (Refer to paragraph 4.2) and recommend to Full Council.
6. To approve the increase in rents of shared ownership dwellings within the HRA by 3.2% (RPI 2.7% + 0.5%), with effect from 7 April 2025 (Refer to paragraph 4.2) and recommend to Full Council.
7. To approve the increase in service charges (Refer to section 5) and recommend to Full Council.

1. INTRODUCTION

- 1.1. The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within the HRA Business Plan. The HRA Business Plan provides the framework for annual HRA budget setting, as estimates need to be closely aligned to the business plan model to ensure that the HRA remains financially viable in the long term.
- 1.2. The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly brought an end to the subsidy regime where councils such as Folkestone & Hythe made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a re-distribution of the national housing debt and the abolition of rent restructuring.
- 1.3. In October 2018, Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. In light of this, and following a review of the financial position within the HRA, there was an opportunity for the Council to expand its New Build Programme to increase the number of new homes in the district.
- 1.4. The HRA Business Plan is the cornerstone of the financial and business planning requirement for the HRA in terms of delivery of its plans for social housing and the affordability of this, coupled with the long-term plans for the overall development and maintenance of the housing stock.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2025/26

The proposed HRA Revenue Budget for 2025/26, at Appendix 1, shows a forecast increase of £803k. This is in line with the agreed and current HRA Business Plan which fluctuates from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year-end HRA revenue reserve balance as at 31 March 2026 is expected to be £3.2m as shown at Table 1 below:

Table 1	£000's
Original estimate of balance at 31 March 2024	(2,434)
Movement from Original 2024/25 to Original budgets 2025/26	
Decrease in revenue contribution to Capital (see 2.1.2)	(3,602)
Increase in rents and other service charges (see 2.1.3)	(724)
Increase in repairs and maintenance (see 2.1.4)	1,157
Increase in loan charges - interest (see 2.1.5)	500
Increase in depreciation charges (see 2.1.6)	462
Increase in general management (see 2.1.4)	260
Decrease in interest on notional cash balances (see 2.1.7)	133
Increase in special management (see 2.1.4)	83

Other net movements	(2)
Subtotal Movement from Original 2024/25 to Original 2025/26	(1,733)
Deficit 2024/25	930
Original estimate of balance at 31 March 2026	(3,237)

2.1.1 HRA Revenue budget

The HRA revenue budgets are driven from the framework set out in the latest approved HRA business plan (February 2024). The business plan sets out the Council's income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional repairs, maintenance and improvements agreed with tenants.

2.1.2 Revenue contribution to Capital expenditure

The reduction in revenue contribution to capital expenditure is due to changes to the financing of the capital programme. This will entail using Other HRA Capital Receipts of £3.8m and a capital financing loan of £5m to support the New Build aspirations set out in the HRA Business Plan.

2.1.3 Rents and Other Service Charges

The increase in rents and other service charges is largely due to the 2.7% increase in line with Government guidelines, there is a separate report for the Housing Rent Setting Budget 2025/26.

2.1.4 Repairs & Maintenance & Management costs

The increase in repairs & maintenance and management costs relates predominantly to inflation, (materials and labour and landlord utility costs), which have been driven by the recent economic and financial climate i.e. effects of increases in inflation, energy costs and costs of borrowing, also a new M&E Communal contract which will give improved assurance that FHDC are compliant with legislation. The impact of this is to increase the recharge costs for the HRA's allocation of Council resources (e.g. staff costs). There has also been an increase in the volume of work, in part to disrepair claims and additional work around mould and damp. Amongst other things, revenue growth bids are also included to i) retain our social housing decarbonisation team who have until this point been funded by grants and who lead our decarbonisation efforts on our capital programme, ii) a surveyor post to perform continuous surveys of our stock and therefore decrease the spend on externally performed stock condition surveys, and iii) up to 4 posts in grounds maintenance to perform HRA specific work across the estate.

2.1.5 Loan charges - interest

The increase in loan charges is due to an increase in the anticipated borrowing required to fund new builds and acquisitions as per the HRA Business Plan.

2.1.6 Depreciation charges

The movement in depreciation charges for fixed assets is due to a forecast increase in asset value of council stock as at 31 March 2025. This has the effect of increasing the depreciation charge. It should, however, be noted that the increased depreciation charge provides a matched increase to the Major Repairs Reserve (see 2.2 below) which is used to fund capital spending. In turn, a corresponding saving can be made to the revenue funding of capital expenditure offsetting the increase in the depreciation charge.

2.2 HRA Reserve Balances

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2024/25 was £3.36m.

Table 2 below shows the estimated HRA balances to 31 March 2026.

<i>Table 2</i>	2024/25	2025/26
	£000's	£000's
Balance as at 1 April (opening)	3,364	2,434
Balance as at 31 March (closing)	2,434	3,237

The HRA reserve is expected to increase by £803k from the close of 2024/25 and the end of the financial year 2025/26.

The changes with the introduction of HRA Self-Financing have significantly increased the flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

Major Repair Reserve (MRR) – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

3. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

3.1 Original Budget 2025/26

The proposed HRA Capital Budget for 2025/26, shown in Appendix 2, is £20.1m. Table 3 below shows the key movements in the programme from the 2024/25 original budget to the original budget for 2025/26.

<i>Table 3</i>	£000's
Original estimate 2024/25	13,454
Changes in programme	
SHDF Wave 2 – Capital Works (see 3.1.1)	(1,555)
Telecare – Digital upgrade (see 3.1.1)	(619)
Treatment Works (see 3.1.1)	(120)
New Builds (see 3.1.2)	7,572
Carbon Improvement Works (see 3.1.3)	595
Everist Court remodelling (see 3.1.4)	300
Sandgate Flats (see 3.1.4)	250
Block CCTV (see 3.1.4)	125
Miscellaneous Capital Works (see 3.1.4)	125
Other net variances	(10)
Total increase in expenditure	6,663
Original estimate 2025/26	20,117

3.1.1 SHDF Wave 2, Telecare – Digital upgrade and Treatment Works

Budget is no longer required for SHDF Wave 2 and Telecare digital upgrade projects as they will have now been completed. The treatment works budget has been reduced as there are no major works to be completed during 2025/26 which has resulted in the reduction of the following budgets from 2024/25 to 2025/26:

SHDF Wave 2	£1,555k
Telecare – digital upgrade	£ 619k
Treatment Works	£ 120k

3.1.2 New Build

Although we have allocated a minimum of £5m a year for acquisitions and affordable new build to 2042/43, the budget required for the new build programme will vary from year-to-year depending on the profile of the programme. This is reflected within the 30-year HRA Business Plan agreed in February 2024 and further the HRA Medium term capital programme. Current proposed schemes for 2025/26 include 44 units at Risborough

Barracks and 26 units in Hythe, far in excess of the 20 units per annum minimum aim from the HRA Business Plan.

3.1.3 Carbon Improvement Works

This budget has increased in order to maintain the momentum on decarbonisation of the Council's existing stock, in place of previous year's grant funding which may not be available.

3.1.4 Everist Court remodelling, Sandgate Flats, Block CCTV and Misc Capital Works

The above 4 capital projects have been requested as growth bids due to essential works required to be completed during 2025/26:

Everist Court - £300k

Refurbishment costs to convert the property back to flats following Age UK relinquishing the lease. This is an opportunity for the HRA that could allow the reinstatement of 5 flats in Lyminge. This would potentially bring in additional rental income of £159.95 per week for each 2 bed flats and £117.37 per week for 1 bed flats (at LHA rates) and add 5 more units of age designated homes in Lyminge.

Sandgate Flats - £250k

The concrete external walkway which serves 4 maisonettes is structurally unsound and currently being supported by scaffolding. This is a serious health & safety issue which needs to be rectified as soon as possible.

Block CCTV - £125k

There is currently very limited CCTV coverage for health & safety issues around anti-social behaviour like fly tipping, it is also to help residents feel more secure in their home surroundings. This funding is to roll out a 5-year programme to allow for CCTV to be tendered; the works will cover general needs and independent living sites.

Miscellaneous Capital Works – £125k

This budget will be used for urgent capital works required during the financial year outside of the set capital programme. If no urgent works are identified, this budget will lapse back into the HRA General Reserve each year but provides officers with the flexibility to mitigate operational matters arising on the HRA capital programme in-year.

3.2 HRA Reserve Balances

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2024/25 and original budget for 2025/26 for the HRA capital programme.

Table 4	Major Repairs Reserve	Use of RTB Capital Receipts	Use of Other HRA Capital Receipts	Capital Financing	Section 106 & Grants & Contributions	Revenue Contribution	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Original budget 2024/25	3,198	600	1,054	5,000	0	3,602	13,454
Original budget 2025/26	3,660	600	3,826	10,429	1,602	0	20,117

- 3.3 Attached at Appendix 3 is the proposed HRA Medium Term Capital Programme. This is based on the current proposed new build schemes which form the new build pipeline. The programme has been developed in conjunction with the Housing Assets team, based on knowledge of the existing stock to date and mindful of the priorities put forward in the HRA business plan which set out aspirations for new build/acquisitions to increase stock.

4. RENT SETTING GUIDANCE & RENTS

4.1 Rent Policy – National context

On the 30 October 2024 the Government released a five-year rent settlement for social housing landlords that annual rents will rise by CPI + 1% each year with potential for this to be extended to 10 years.

The Government regulates how much social housing and affordable rents can increase each year. It is set at the consumer price index (CPI) rate for September in a given year, plus 1% - meaning potential increases for 2025/2026 of 2.7% in line with the latest data from the Office of National Statistics.

4.2 Rent Increase – Local context

In line with last year's approved report, Housing Services will be charging the 'formula rent'¹ when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the 'actual' cost on new lets.

The proposed increase of 2.7% in line with Government guidelines, equates to an increase of £2.79 per week or £145.08 per annum. This gives an

¹ The 'formula rent' is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.

average rent of £110.27 (over 50 weeks) in 2025/26 (average rent in 2024/25 is £107.10 (over 51 weeks)).

The HRA has 18 shared ownership properties. Shared Ownership rents are set out in the terms of most lease agreements, and rents are permitted to increase by a maximum of the Retail Prices Index (RPI) plus 0.5%. In September, RPI was 2.7% this means that rents could increase by 3.2% in 2025-26.

4.3 New Build rents & Affordable Rents

In line with proposals set out in the Council’s current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2025/26 will not be updated in April 2025, therefore, the LHA will be frozen at 2024 rates. Folkestone and Hythe District Council fall within the ‘Dover-Shepway’ LHA area.

	Dover-Shepway Area
Bedsits	£99.30 per week
1 bedroom houses	£117.37 per week
2 bedroom houses	£159.95 per week
3 bedroom houses	£199.07 per week
4 bedroom houses	£276.16 per week
	Ashford Area (comparator)
Bedsits	£90.50 per week
1 bedroom houses	£172.60 per week
2 bedroom houses	£195.62 per week
3 bedroom houses	£252.64 per week
4 bedroom houses	£331.40 per week

The proposed affordable rents increase for 2025/26 is either 2.7% or the local housing allowance rate whichever is the lower.

4.4 Rent Comparisons

The table below compares Folkestone & Hythe’s average weekly rent to that of other authorities in Kent.

<i>Table 1</i>	Average weekly rent over 52 weeks (2025/26) £	Difference between FHDC and other authorities £

Folkestone & Hythe	106.03	-
Dover	107.16	1.13
Canterbury	114.44	8.41
Thanet	102.31	(3.72)

- Subject to Dover, Canterbury, and Thanet's approval at their own Council meetings.

5. Service Charges

5.1 General Service Charges

The general principle for service charges for tenants is that they are set to fully recover the costs of the service they fund. However, the Government also limits increases in service charges as part of rent setting guidance which for 2025/2026 is CPI + 1%. The CPI for September 2024 is 1.7%, therefore the rent increase will be a maximum of 2.7% (1.7% + 1%).

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2025/26 are set out in 3.2 below.

3.2 Heating charges in Sheltered Housing

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

Over time fuel costs have increased significantly above the rate of inflation, so that the charges raised for this service no longer cover the costs. The proposed charges for this service, set against the actual cost of providing the service, are in line with the principle agreed last year. This continued move to full cost recovery may result in some tenants facing significant increases and it is therefore proposed to set charges that provide some interim protection against the highest increases.

Following the same approach as previous years, it is recommended that the 2025/26 service charges for heating and hot water in sheltered housing schemes should be set at actual cost or 10% increase, subject to the following limits:

- Bedsit flats £33.90 per week (£1,763 per year)
- 1 bed flats £37.79 per week (£1,965 per year)
- 2 bed flats £41.50 per week (£2,158 per year)

6. RISK MANAGEMENT ISSUES

6.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital programme does not reflect work required	Medium	Low	The budgets have been drafted following a comprehensive stock condition assessment to identify works required and allocation of resources accordingly.
Spending profile and budget are unaligned	High	Low-Medium	Stringent budget monitoring during the financial year will enable early corrective action.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Comments (NM)

There are no legal implications arising directly out of this report other than as already stated therein. (Following the coming into force of Schedule 15 of the Localism Act 2011, English local authorities are required to be self-financing in relation to their housing stock, financing their housing stock from their own rents.)

7.2 Finance Comments (JS)

This report has been prepared by Finance; there are no further comments to add.

7.3 Diversities and Equalities Implications (GE)

The report does not cover a new service/policy, or a revision of an existing service or policy therefore does not require an EIA.

7.4. Climate Change implications (JW)

There are no climate change implications arising from this report.

Consideration should be given to ensure that houses are built, repaired, and upgraded using materials and techniques that are suitable to our changing climate.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

This report has been prepared by:

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:

Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme

Appendix 3 – HRA Medium Term Capital Programme