



Tuesday, 10 February 2026

Report of Councillor Ashley Baxter,
Leader of the Council,
and Cabinet Member for Finance,
HR and Economic Development

Budget Proposals for 2026/27 and indicative Budgets for 2027/28 and 2028/29 – Housing Revenue Account

Report Author

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Purpose of Report

To present the draft budget proposals and estimates for 2026/27 for the Housing Revenue Account (HRA).

Recommendations

Cabinet is asked to make the following recommendations to Council to:

- **Approve the HRA budget for 2026/27 and indicative proposals for 2027/28 and 2028/29 (Appendix A).**
- **Approve an increase of 4.8% for 2026/27 for the social housing dwellings.**
- **Approve the proposed increase of 2% for garage rents and 3.8% increase for service charges.**
- **Approve the HRA Capital Programme and financing statement 2026/27 to 2028/29 (Appendix B).**
- **Approve the HRA Capital Programme budget carry forward of £10.416m from 2025/26 (Appendix B)**
- **Approve the movements in HRA Reserves (Appendix C)**

Decision Information

Does the report contain any exempt or confidential information not for publication? No

What are the relevant corporate priorities? All

Which wards are impacted? All Wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

- 1.1 Financial commentary is contained throughout this report. Members are asked to note the commentary on the level of reserves and the Financial Risk Register.

Completed by: Richard Wyles, Deputy Chief Executive and s151 Officer

Legal and Governance

- 1.2 The recommendations relate to proposals for the budget which forms part of the budgetary and policy framework in accordance with the Budget and Policy Framework Procedure Rules set out at Part 4(3) of the Constitution of the Council (Rules of Procedure). Members (Cabinet) must consult with the community on the proposals contained within this report as required in accordance with statutory regulation and constitutional requirements.

Completed by: James Welbourn, Democratic Services Manager

Risk and Mitigation

- 1.3 A Financial Risk Register is shown at Appendix D and risk scores are applied accordingly.

Completed by: Tracey Elliott, Risk and Governance Officer

Diversity and Inclusion

- 1.4 An Equality Impact Assessment can be found at Appendix E.

2. Background to the Report

2.1. This report is the final presentation to Cabinet of the budget proposals for 2026/27 and contains information that was included in the report presented to Cabinet on 15 January 2026.

3. HOUSING REVENUE ACCOUNT (HRA)

3.1 The 2025 - 2030 Housing Strategy was approved by Cabinet on 4 November 2025. It sets out the vision for housing across South Kesteven which is to have a range of secure, safe, good quality and sustainable housing of all tenures. It will support people to live healthy and independent lives in their homes and aims to respond to changing needs in sustainable communities.

3.2 The Housing Strategy sets out five priorities:

- A commitment to deliver new affordable and specialist housing in partnership.
- Continual improvement of the quality, standard and safety of homes
- Support people to live healthy and independent lives in their homes
- Facilitate housing to be sustainable
- Support communities to be sustainable

3.3 Nationally, councils with social housing are experiencing similar challenges which include:

- Capital investment needs driven by stock condition surveys and the requirement to ensure all properties have a minimum energy standard of EPC C.
- Revenue pressures primarily driven by day-to-day responsive repairs.
- Revenue pressures arising from enhanced regulation including Awaab's Law and the requirements for housing employees to have professional qualifications.
- Costs of building and delivering new homes to replace those sold under Right to Buy.

3.4 The HRA budgets have been set in the context of delivering the aims of the Housing Strategy balanced against the need to maintain a sustainable 30-year financial business plan.

3.5 The Financial challenges facing the HRA required Council in 2025/26 to allocate further resources in response to increasing revenue costs. These pressures continue into 2026/27 and this financial growth is reflected in the proposed revenue budgets shown at **Appendix A**. Line 27 of Appendix A shows the full extent of the decrease in the balances. The Major Repairs Reserve balance reduces from **£10.508m** as at 31 March 2026 to **£2.796m** as at 31 March 2029.

3.6 In order to avoid creating an unsustainable medium-term outlook for the HRA, corrective actions have been carried out across all budget areas of the HRA. The most significant work has been to approach the formation of the capital programme from a zero-base approach using data from the stock condition survey.

3.7 This analysis has enabled a more accurate and targeted capital programme but within a financial limit that does not put the HRA under financial pressure in the medium term. However, in the longer-term HRA Business Plan projections indicate a potential need to draw on further reserves before potentially falling in a deficit position by 2032/33. Consequently, spending plans will need to be reviewed in order to take corrective action to avoid a deficit. The recent announcement from Government regarding the outcome of the rent convergence proposals will provide an increase in revenue income which may bring the business plan back into balance. Work will be undertaken to model the impact of the proposals and update the HRA business plan accordingly.

3.8 The provisional capital programme for the next 3 Financial Years is shown at **Appendix B**. Summary details are provided in **section 5** of this report.

4. Housing Revenue Account 2026/2027 – Rent Proposals

4.1 Following a previous consultation, the Government announced as part of the Spending Review a 10-year rent settlement for social housing from 1 April 2026 in which will permit rents to increase by Consumer Prices Index (CPI) +1% per annum. The rental income budgets are set in accordance with this rent setting guidance formula which is set at 4.8% for 2026/27.

4.2 In response to feedback, the Government has recognised a need for Social Rent Convergence. This would help to fund the investment in new and existing social housing required to deliver the government's ambitions.

4.3 Convergence would allow rents for Social Rent properties that are currently below 'formula rent' to increase by an additional amount each year, over and above the CPI+1% limit, until they 'converge' with formula rent. Formula rent refers to the formula used to calculate the rent that may be charged for a given property when it is let to a new tenant. A convergence mechanism was originally introduced in 2002 but was scrapped in 2015.

4.4 Consultation on this proposal was launched in July 2025 which set out a number of options for implementation which included should the additional charge be set at £1 or £2 extra per week, should rent convergence be introduced from 1 April 2026 and how long should rent convergence be in place for.

4.5 An announcement was made on the 28 January 2026 regarding the outcome of the consultation which confirmed the following:

- From 1 April 2027 rent can be set with an additional £1 a week as long as this does not result in the rent exceeding formula rent.

- From 1 April 2028 rent can be set with an additional £2 a week as long as this does not result in the rent exceeding formula rent

Therefore, no allowance has been made in 2026/27 for the potential impact on dwelling rents income.

4.6 Rent setting proposals increase the annual budgeted rental income from **£29.856m** in 2025/26 to **£31.091m** in 2026/27. The average weekly rental by bedroom type is shown in **Table 1** below.

4.7 Garage rents are proposed to increase by **2%** and service charges are proposed to increase **3.8%**. Further analysis of rent details is provided in **Tables 1 and 2**.

Table 1 - 4.8% increase

Bedrooms	% of Dwelling Stock	Average Weekly Rent 2025/26	Average Weekly Rent 2026/27	Average Increase	% Increase
Bedsit	0.52%	70.34	73.72	3.38	4.8%
1 Bedroom	13.65%	87.19	91.38	4.19	4.8%
2 Bedrooms	43.35%	97.17	101.83	4.66	4.8%
3 Bedrooms	40.17%	107.02	112.16	5.14	4.8%
4 Bedrooms	2.16%	115.56	121.11	5.55	4.8%
6 Bedrooms	0.15%	131.51	137.83	6.31	4.8%

Table 2 – Property Analysis of Increase

Increase per Week	Number of Properties	% of Properties
Under £3.99	317	5.44%
£4.00 - £4.49	1,277	21.92%
£4.50 - £4.99	2,179	37.41%
£5.00 - £5.49	1,552	26.64%
£5.50 - £5.99	410	7.04%
£6.00 - £6.49	39	0.67%
£6.50 - £6.99	12	0.21%
£7.00 - £7.49	4	0.07%
£7.50 - £7.99	9	0.15%
Over £8.00	26	0.45%

4.8 In setting the budget for rental income for future years, in addition to the 4.8% rent increase, the following assumptions have been made:

- Void rent of 1.5%
- Following Government changes to the Right To Buy (RTB) discount rates the sales forecast has been set at **15** for 2026/27 based on the reduced activity levels during 2025/26 since the changes were introduced.

Table 3 – Housing Revenue Account Budget Assumptions

Cost Heading	2026/27		2027/28		2028/29	
	% Increase	Annual Increase on base budget	% Increase	Annual Increase on base budget	% Increase	Annual Increase on base budget
Pay Award	3%	£209k	2%	£130k	2%	£133k
Fuel *	10%	£5k	5%	£8k	5%	£12k
Gas*	5%	£19k	5%	£13k	5%	£14k
Electricity*	10%	£25k	5%	£14k	5%	£15k

*These budgets have been rebased in 2026/27 following an underspend in 2024/25 and forecast savings in 2025/26 to ensure they are more accurate set based on current consumption levels and reduced unit prices. The increases in 2026/27 are based on the reduced base budget for these areas

4.9 Actuary Triennial Review – Following the triennial review the Actuary has reduced the employer primary contribution rates for the following three-year period as the Fund is currently over funded. This follows a number of years where additional levels of contributions were required as the fund was previously in deficit. Therefore, the employer contribution will reduce from **24.8%** to **17.7%** from 2026/27 to 2028/29. This reduction in financial terms amounts to **£364k** and will be used to offset against the pay award assumption increased that is referenced in this report.

4.10 Treasury Investment Income - the financial forecasts for investment income remain volatile with most economists predicting a reduction in Base Rate. Estimated interest rates for investments, based on projections from the Council's Treasury Advisors, are shown at **table 4** below.

Table 4 – Treasury Investment Financial Forecasts

Financial Year	2026/27	2027/28	2028/29
Forecasted Interest Rate	3.50%	3.25%	3.00%
Assumed Interest Receivable	£1.203m	£0.804m	£0.652m

5 CAPITAL PROGRAMME 2026/27 – 2028/29

Housing Investment Programme (HIP)

5.1 The capital programme for the period 2026/27 – 2028/29 has been derived using the results and analysis of the recent Stock Condition Survey.

5.2 This analysis allows the Council to focus the resources of the HRA to address outstanding refurbishment and improvements in key parts of the stock including:

- energy efficiency investment
- ensuring ongoing investment in compliance works; and
- scheduled improvements such as replacements of kitchens and bathrooms, replacement roofing and installation of secure and efficient doors and windows.

5.3 Since it was previously presented to Cabinet on 15 January 2025, the indicative HRA Capital Programme has been amended to include currently known budget carry forwards from 2025/26. If further carry forwards are identified, they will be included in the outturn report when actual spend for 2025/26 has been determined.

5.4 The 2026/27 programme (including carried forwards) is summarised at **Table 5** and detailed at **Appendix B**.

Table 5 – HRA Capital Programme Summary

	2025/26 Carry Forwards £'000	2026/27 Proposed Budget £'000	2027/28 Indicative Budget £'000	2028/29 Indicative Budget £'000
Energy Efficiency Initiatives	0	5,841	1,250	1,250
Vehicle Purchase	765	221	238	0
New Build Programmes	8,551	4,000	3,000	3,000
Refurbishment and Improvement Works	1,100	7,122	8,322	8,322
Physical Adaptations	0	300	300	300
HRA Budget	10,416	17,484	13,110	12,872
Financing:				
Capital Receipts	8,551	4,000	3,000	3,000
Grants and Contributions	0	2,295	0	0
Reserves	1,865	11,189	10,110	9,872
Total Financing	10,416	17,484	13,110	12,872

5.5 The schemes being carried forward in the 2025/26 programme are:

- **£0.765m** Repairs Vehicles (funded from Major Repairs Reserve)
- **£8.551m** Housing Development Investment (funded from Capital Receipts)
- **£0.500m** Alarms (funded from Major Repairs Reserve)
- **£0.600m** Fire Protection (funded from Major Repairs Reserve)

6 CAPITAL FINANCING

6.1 The HRA Capital Programme is proposed to be financed from HRA earmarked reserves. This is currently affordable without the need for borrowing because the HRA is able to create an operating surplus which contributes to the Major Repairs Reserve.

6.2 The HRA capital programme for 2026/27 (including carry forwards) is proposed to be financed from the following:

- **£12.551m** Capital Receipts Reserve
- **£2.295m** Grant Funding
- **£13.054m** Major Repairs Reserve

7 RESERVES AND BALANCES

7.1 A number of specific reserves assist in the delivery of HRA services, which are used to fund both revenue and capital expenditure. Furthermore, the HRA has a specific working balance which provides financial support to the HRA should any significant unforeseen costs arise during the Financial Year.

7.2 The Major Repairs Reserve is the primary source of funding for the HRA capital programme. It is proposed that it will fund investment in the housing stock over the next 3 years. Further detail of the HRA Reserves can be found in **Appendix C**.

Table 6 - Budgeted HRA Reserve Movements

Reserve Heading	2026/27 £'000	2027/28 £'000	2028/29 £'000
Priorities Reserve	(100)	(100)	(100)
Working Balance	(134)	272	(1,394)
Capital Receipts	(10,074)	(773)	(1,357)
Major Repairs Reserve	(6,004)	(2,436)	267

- The Priorities Reserve is used to fund HRA service priorities. In 2026/27 **£100k** of the reserve will be used to fund New Build Feasibility studies.
- The Capital Receipts Reserve movements shown in **Table 6** above are proposed to contribute towards financing the new build scheme over the 3-year capital programme.
- An annual revenue contribution is required to the Major Repairs Reserves which funds capital investment in the Council's housing stock. The Major Repairs Reserve of **(£13.054m)** will contribute towards the 2026/27 programme (including carry forwards), further details regarding the financing of each scheme are detailed in **Appendix B**.
- A sum of **£3.222m** is transferred annually from the HRA account to the working balance which is used to fund the principal repayment of the external HRA self-financing loan taken out in 2012. An annual contribution is also

made from the working balance to the Major Repairs Reserve to ensure sufficient resources are available to fund investment in the housing stock. In 2026/27 this contribution will be **£1.714m**.

- 7.3 Based on the current level of capital expenditure over the next 3 years the MRR balance is forecast to significantly decrease from **£15.316m** as at 31 March 2025 to a projected balance of **£2.063m** at 31 March 2029. Together with the increased pressure in dealing with the revenue repairs and maintenance issues puts a severe financial strain on the HRA with the overall level of reserves forecast to reduce from **£35.723m** at 31 March 2025 to **£7.752m** at 31 March 2029.
- 7.4 Whist the current HRA Business Plan shows a balanced position in the Medium Term, longer-term projections show the need to draw on further reserves before potentially falling into a deficit by 2032/33.
- 7.5 This could be mitigated through the capacity to increase rents through rent convergence. Following the recent announcement regarding the outcome of the consultation (outlined in para 4.5 above) work will be undertaken to model this impact.
- 7.6 If the outcome of rent convergence proposals is insufficient to deal with the projected deficits within the HRA Business Plan, it will be critical to revisit the future capital and revenue spending projections to ensure a balanced, fully funded business plan is attainable.

8 Statement by the Chief Finance Officer (s151 Officer)

- 8.1 The Council's Chief Finance Officer is required to comment on the robustness of the budget estimate and the adequacy of the proposed financial reserves in accordance with the requirements of the Local Government Act 2003. The estimates are considered robust. Employee costs are based on the approved establishment, contractual inflation is included, there is a reasonable provision for inflation, interest income is based on the advice of the Council's treasury management advisors and income targets are considered to be achievable.
- 8.2 The Council's Housing Revenue Account is currently experiencing financial pressures and the s151 Officer has highlighted this during the past year. In November 2025, the Council approved one-off funding of £2.781m for the financial year 2025/26. However, the financial proposals for 2026/27 onwards show further reserve reductions based on current spending plans for both capital and revenue and these expenditure levels are not sustainable. Consequently, an urgent review of the HRA Business Plan will be needed to ensure the ongoing sustainability of the HRA.

9 Other Options Considered

- 9.1 The alternative options are considered as part of the report in sections 3 to 7.

10 Reasons for the Recommendations

- 10.1 The Council is required to set a HRA Budget each year and to set rent levels in accordance with the Government rent setting guidance.

11 Consultation

- 11.1 The draft budget proposals were presented to Budget - Joint OSC on 13 January 2026 for consideration. Feedback was reported back to Cabinet on 15 January.

12 Appendices

- 12.1 Appendix A – 2026/27 Revenue summary – Housing Revenue Account (HRA)
- 12.2 Appendix B – 2026/27 Capital Programme – HRA
- 12.3 Appendix C – 2026/27 Reserves Statement – HRA
- 12.4 Appendix D – HRA Finance Risk Register
- 12.5 Appendix E – HRA Equality Impact Assessment