BABERGH DISTRICT COUNCIL

COMMITTEE: Council		**REPORT NUMBER: XXXX**
FROM:	**Councillor John Ward, Cabinet Member for Finance**	**DATE OF MEETING: 24 February 2026**
OFFICER:	**Melissa Evans, Director, Finance & Commissioning & Procurement** **Mandeep Bohgil, Interim Director, Housing**	**KEY DECISION REF NO. Item No.**

HOUSING REVENUE ACCOUNT (HRA) 2026/27 BUDGET AND 30 YEAR BUSINESS PLAN

1 PURPOSE OF REPORT

1.1 The purpose of this report is to present the HRA Revenue and Capital Budget for 2026/27 and the 30 Year Business Plan.

1.2 To enable Members to consider key aspects of the 2026/27 HRA Budget, including council house rent levels and service charges.

2 OPTIONS CONSIDERED

2.1 The Housing Revenue Account Budget for 2026/27 is an essential element in achieving a balanced budget and sustainable medium-term position, therefore no other options are appropriate in respect of this.

3 RECOMMENDATIONS

That Council approves:

3.1 The HRA Budget proposals for 2026/27 set out in this report.

3.2 That a CPI + 1% increase of 4.8% for social rents, equivalent to an average rent increase of £5.50 for social rent and affordable rent of £7.90, a week be implemented.

3.3 That the RPI increase of 4.5% in garage rents be implemented.

3.4 That sheltered housing service charges and utility charges are spread over 4 years to achieve full recovery cost. Equivalent to £0.98 a week increased service charge, £0.37 a week increased heating charge and £1.27 a week increased water charge be implemented.

3.5 That a General Needs service charge on blocks be implemented at an average £6.31 per week, per tenancy in a block.

3.6 That the rent tolerance of 10% on Sheltered Accommodation properties be approved in line with guidance received from Trowers & Hamlins.

3.7 That in principle, Right to Buy (RTB) receipts should be retained within the Housing Revenue Account to enable continued development and acquisition of new council dwellings.

REASON FOR DECISION

To bring together all the relevant information to enable Council to approve the 2026/27 HRA budget.

4 KEY INFORMATION

Background

4.1 The Council is obliged to maintain a longer-term business plan for the HRA which shows its revenue and investment plans are sustainable and appropriate, taking full account of the planned capital investment. The Council has a legal duty to ensure the HRA remains solvent and to review the account throughout the year.

4.2 The HRA Business plan as shown in Appendix A sets out the Councils long-term investment strategy to maintain the quality of its housing stock. The plan will be reviewed, at least, annually and uses current levels of income and expenditure information and projects for the next 30 years applying several key assumptions. These are in relation to the anticipated stock changes arising from right to buy sales, acquisitions and known new build and regeneration plans, the number of void properties, the policy on rent and service charge increases, repairs and maintenance and property management costs, capital investment requirements based on stock condition information and forecast borrowing costs. It also sets out our aspirations and priorities, these are further detailed in our Homes and Housing Strategy.

4.3 The HRA and the services that the Council provides for its tenants and leaseholders are more relevant and important than ever with the Social Housing (Regulation) Act 2023 introducing a new regulatory framework, supported by a greater emphasis on resident engagement. The HRA must ensure its management function is strong, and both anticipates and meets the needs of all its residents

4.4 The Councils current HRA Business Plan presents a financial picture over the longer term (a thirty-year period as required under the self-financing regime). The Business Plan is used to plan and understand any potential borrowing requirements which are needed to adhere to Social Housing Regulations such as the Consumer Standards and the Decent Homes Standard.

4.5 The housing landscape looks very different to previous years following the introduction of new legislation such as the Regulatory Standards. Further legislation is expected this year, this includes Decent Homes two, which relates to the thermal comfort been updated and included in the plan. Members should be aware that due to financial constraints, in January 2024 they agreed to the funding of a full stock condition survey, and this has now been completed. The capital cost over the 30 years has been updated in the business plan.

4.6 A significant number of challenges have been placed on the HRA Business Plan because of:

- The imposition of a social rent cut of 1% per year, for four successive years commencing April 2016. This was a significant deviation from what was promised when the rent settlement was set in 2012. This is largely the reason for our financial challenges.
- Further upcoming legislation including Decent Homes Standard 2.

- Increased buildings compliance and regulatory requirements, particularly post Grenfell and including new targets for carbon neutrality.
- Increased Right to Buy sales last year prior to the reduction in discounts.
- The impact of Brexit / Covid on inflation in general and particularly in the cost of construction / repairs in terms of materials and labour.
- Ukraine situation and global gas/electricity prices.
- Changes to regulatory standards.
- Increased reporting requirements, more information gathering, and improving service offer to tenants is putting further pressures on systems and system teams.
- A below inflation (10.1% CPI) cap on rent increases of 7% in 2023/24.

4.7 Following a period of five years that saw annual 1% rent reductions, which ended in March 2020, councils were allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years from April 2020. Subject to compliance with the Regulator of Social Housings Rent Standard, this has begun to mitigate the impact of the 1% reduction on the 30-year plan. However, the cost-of-living crisis led to the Government making a change to the rent settlement in 2023/24 and capping the increase at 7%. This is again against the backdrop of aging stock which requires urgent investment.

4.8 The removal of the HRA Debt Cap from 29 October 2018 means that local authorities can borrow to fund new homes without worrying about breaching this cap. Any borrowing will be subject to the Council adhering to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.

4.9 Central Government issued the 2024/25 rent standard in January 2024, this stated that a maximum of 7.7% increase could be applied to social rents. This for Babergh, like all other councils is difficult given the cost-of-living crisis. Like the general fund, the HRA has both a revenue pot and capital pot. If rents do not increase by the full amount available other difficult decisions will need to be made, these may include a reduction in the speed and level of repairs carried out and a reduction in services. Members will be aware that significant ongoing investment is required to provide safe dry homes for our residents therefore reducing repairs or services is not recommended.

4.10 The long-term position in relation to the 30-year business plan, currently indicates that our position will be sustainable for the full 30 years. However, it should be noted that the assumption that £2 rent convergence has been applied from 2027/28 (see notes 6.2 to 6.8). If this is not implemented the effect will be a loss of £6.28m rental income over the 30 years of the business plan. Officers, led by the Director of Housing will continue to work to ensure the HRA business plan is sustainable and can cover its interest payments over the next 30 years. It is important to note that the reasons for the challenges around the HRA account are complex and date back to 2002. The majority of Councils are in a similar position, and the sector continues to lobby Central Government.

4.11 Our ongoing financial challenges are likely to continue, this is particularly concerning the sheer number of damp, mould, and roofing works required. We are therefore in a position where all income streams will need to be considered if we are going to meet our legal requirements and provide safe, dry and warm homes.

2025/26 Budget and Forecast Outturn

4.12 On 26 February 2025 the Council set the HRA budget for 2025/26 showing a deficit of £8.855m to be funded from reserves. This included an £8.283m revenue contribution to capital expenditure.

4.13 The 2025/26 quarter two budget monitoring report shows a forecast outturn deficit of £2.777m, a favourable variance of £5.576m against the budgeted deficit of £8.353m.

2026/27 Budget Proposals

4.14 In preparing the budget for 2026/27 the various headings have been thoroughly reviewed against the forecast for 2025/26, to ensure that they are set on a robust basis for next year.

4.15 The budget for 2025/26 was a deficit of £8.353m, the budget position for 2026/27 is a deficit of £8.855m, an increase of £502k. The main reasoning for this change shown in Table 1.

Table 1: Budget changes

	£'000	£'000
2025/26 Deficit		**8,353**
Pressures		
Revenue Contribution to Capital (RCCO)	2,573	
Premises Insurance direct to HRA rather than via recharges from the General Fund	431	
Salary increases	374	
Interest Payable	279	
Consultancy Services	155	
Disrepair Costs	150	
Health and Safety Buildings	129	
Damp and Mould Surveys	150	
IT Software Maintenance	97	
Asbestos Survey & Reinspection	95	
Subsidence Costs	75	
Insurance Excess payment	75	
Legal Expenses	70	
Valuation and audit fees	63	
Employers NI	52	
Other inflationary increases	45	
Total Pressures		**4,813**
Savings/additional Income		
Rental income – based on 4.8% increase	(1,257)	
Housing Rechargeable Works	(592)	
Depreciation reduction following latest asset valuation	(469)	
Property Repairs, Maintenance & Alterations	(398)	
Contract: Heating	(375)	
Employers Pension	(281)	
Agency Staff	(248)	

	£'000	£'000
General Fund recharge to HRA following separation of Insurance	(169)	
Contract: Electrical Testing	(148)	
Corporate Recharges Out	(136)	
Voids Contract	(121)	
Interest Receivable	(61)	
Service Charge income with rollout to General Needs and De-sheltering	(55)	
Total Savings/additional Income		**(4,310)**
Total Net Increase		**502**
2026/27 Deficit		**8,855**

4.16 Table 2 shows the Councils expenditure has decreased by £1.014m and income has increased by £1.275m.

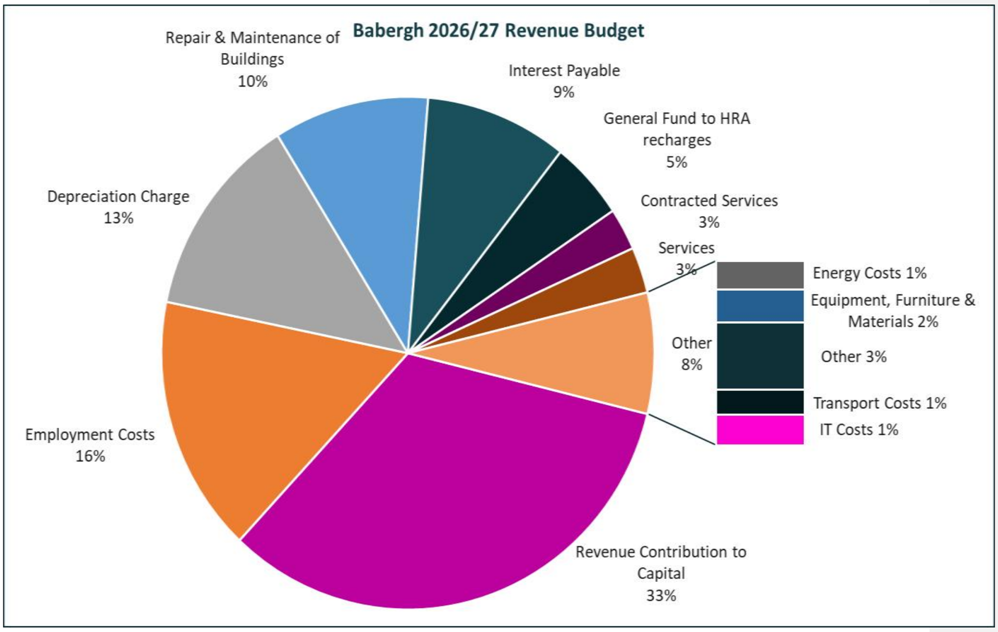
Table 2: Summary of Budget and Q2 Forecast 2025/26 vs Budget 2026/27

Babergh District Council	2025/26 Budget (£'000)	Q2 Forecast (£'000)	2026/27 Budget (£'000)	Budget Movement (£'000)	
Income	**(22,607)**	**(22,600)**	**(23,882)**	**(1,275)**	
Rent Receivable	(21,562)	(21,557)	(22,849)	(1,287)	Applied September CPI (3.8%) plus 1% and corrected prior year incorrect budget codes. Assumed 1.25% voids rate.
Service Charges	(1,013)	(1,015)	(1,028)	(15)	Service Charge calculations based on costs from October 2024 to September.
Other Income	(32)	(28)	(6)	26	One off Grant for Tenants Forum last year.
Expenditure	**19,847**	**19,157**	**18,834**	**(1,014)**	
Employment Costs	5,404	5,123	5,318	(86)	3% salary increase plus incremental increases, partially offset by reduction in pension contributions.
Cleaning	74	122	95	21	
Compensation payments to Tenants	51	245	39	(12)	Disrepair damages split out from Compensation payments and recorded within Repair & Maintenance of Buildings
Corporate & Democratic Core	221	221	204	(17)	
Contracted Services	992	596	870	(121)	Voids budget reduced due to contract in place.
Energy Costs	450	390	394	(57)	Reduction in Energy costs following overestimation of costs for 25/26.
General Fund Recharge to HRA	1,602	1,616	1,433	(169)	Insurance charged directly to HRA (see Rents, Rates & Premises Insurance).
HRA Recharge to General Fund	(12)	0	0	12	Charges no longer split out following move to new job management system.
IT Costs	315	352	410	96	New Job Management System and reflection of above inflation increase for 25/26 and 26/27.
Other Supplies & Services	35	57	171	135	Damp and Mould Surveys and external auditors for Compliance
Rents, Rates & Premises Insurance	75	69	487	412	Insurance to be charged directly rather than via GF to HRA recharge
Repair & Maintenance of Buildings	4,444	3,673	3,332	(1,113)	Removal of the one off million for 2025/26 and split of works with Services for Asbestos works
Services	629	1,154	950	322	Additional Asbestos works and Consultancy work
Tools, Equipment, Furniture & Materials	408	423	438	30	Updated to Trades team contract value for Tools and Equipment

Babergh District Council	2025/26 Budget (£'000)	Q2 Forecast (£'000)	2026/27 Budget (£'000)	Budget Movement (£'000)	
Transport Costs	348	323	343	(5)	Reduction as per information from Fleet Manager
Bad Debts	112	90	119	6	0.52% of income
Depreciation	4,701	4,701	4,232	(469)	As per latest valuation on Asset register
Operating Surplus	**(2,760)**	**(3,443)**	**(5,048)**	**(2,289)**	
Interest Receivable	(260)	(645)	(321)	(61)	Interest due on PWLB loans and internal borrowing
Interest Payable	3,090	3,568	3,369	279	Interest on Operating Account and Right to Buy receipts
Revenue Contribution to Capital	8,283	3,297	10,856	2,573	As per Business Plan calculation
Deficit for the Year	**8,353**	**2,777**	**8,855**	**502**	

4.17 Chart 1 shows the breakdown of costs for the 2026/27 budget totalling £32.737m, the largest being the revenue contribution to capital and employee costs.

Chart 1: 2026/27 Revenue Expenditure Budget



Tables 3 and 4 show the stock numbers and rent increases following the latest developments.

Table 3: Stock numbers

Babergh	Existing Stock	Development Stock	RTB Sales	Closing Stock
Rental Stock	**3,500**	**-**	**(6)**	**3,494**
Social Housing	2,962	-	(6)	2,956
Affordable	225	-	-	225
Supported (Sheltered)	260	-	-	260
Temporary Accommodation	31	-	-	31
Homelessness	22	-	-	22
Sales Stock	**59**	**2**	**-**	**61**
Shared Ownership	59	2	-	61
Total	**3,559**	**2**	**(6)**	**3,555**

Table 4: Rental Income

Babergh	Existing Rent	Increase	Budget 2026/27	Rate of increase
	£'000	**£'000**	**£'000**	
Social Housing	18,731	-	18,731	CPI + 1%
Affordable	1,978	-	1,978	CPI + 1%
Supported (Sheltered)	1,453	-	1,453	CPI + 1%
Temporary Accommodation	151	-	151	CPI + 1%
Homelessness	91	-	91	CPI + 1%
Shared Ownership	358	13	371	RPI + 0.5%
Void Losses	(282)	-	(282)	
Non-Dwelling Rents	356	-	356	
Total	**22,835**	**13**	**22,849**	

4.18 Of the Council's 3,549 current tenants, 811 (22.85%) that we know of are in receipt of Housing Benefit and 1,521 (42.86%) in receipt of Universal Credit. As Universal Credit is paid direct to the tenant, rather than the landlord, the Council no longer knows the total number of tenants in receipt of support to pay their rent. Due to the Local Housing Allowance increasing, tenants will not need to find the additional rent as this will be paid for from the increased allowance.

4.19 In calculating the 2026/27 budget, the following assumptions have been made:

Table 5: Budget Assumptions

Category	Assumption
Dwelling Rents	The average 2 bed weekly social rent will increase by £5.50, from £114.66 to £120.17. For affordable housing, the weekly 2 bed rent will increase by an average of £7.90 from £164.51 to £172.41
Voids	Remain at 1.25%
Non-Dwelling Rents	Garage rents are being increased in line with RPI (4.5%).
Other Income	3.8% allowed for increase on Leasehold Service charges (to be calculated February/March 2025)
Sheltered Service Charge	An average increase of £0.98 per week or £4.26 per month
Heating Charge	An average increase of £0.37 per week or £1.62 per month
Water Charge	An average increase of £1.27 per week or £5.51 per month
General Needs Service Charge	Average weekly charge of £6.31 per tenancy in a block.

Category	Assumption
Expenses	Annual inflation rate of 3.8%
Salaries	An Annual Pay Award of 3% has been assumed. In addition, incremental increases within the Scale Points of each Grade have been applied which equates to on average a 2% increase.
National Insurance	The Employers National Insurance contribution is currently 15% above the threshold of £5,000.
Pensions	The Employers Pension Contribution has decreased from 26% to 16.4% from 2026/27 onwards. This is following the recent review which takes place every three years as part of the external Actuaries' revaluation of the Pension Fund.
Utilities	No increase – kept in line with Q2 forecast
Supplies	Annual inflation rate of 3.8%
Interest Rates	Internal borrowing rate set to 3.75% and external borrowing at 5.5%
Bad Debt Provision	0.52% of rental income
Depreciation	Based on the latest stock valuation of the current assets.
RCCO	Revenue Contribution to Capital is modelled using the business plan to balance the capital financing.

Rent

4.20 From April 2026 when a Sheltered property is relet, the rent will increase to the target plus an additional 10%. This 10% increase applies only once; if the property becomes vacant again, the rent will remain at the target plus 10%, with no further increases, other than annual increases allowed under the rent standard.

4.21 A 5% rent tolerance was introduced to the general needs properties in 2025/26.

Service Charges

4.22 As part of our ongoing project to enhance service charge setting, we have been examining all costs associated with running and maintaining our housing scheme and assets. We have identified several recoverable charges that were not previously billed. We recognise the importance of considering affordability for tenants. With 46% of tenants in sheltered housing not in receipt of housing benefits, we must balance fairness (ensuring services are not funded by general rental income) with affordability - we need to ensure we meet regulatory expectations and consider the impact on more vulnerable groups. Therefore, we need to review potential cost-saving measures for running the schemes and providing services that tenants need, for full cost recovery to be affordable. This work will begin in 2026/27.

4.23 For the 2026/27 Sheltered Service Charges we are going to adopt the same approach as last year, we note that using this method will not result in full cost recovery, however we aspire to achieve this within 4 years. In order to achieve this, we need to review the service provision and assets to ensure that it is fit for purpose and the costs are affordable.

4.24 The proposals for this year's costs using last year's methodology are:

- That a capped (over three years) 2% increase for sheltered housing service charges, equivalent to £0.98 a week, be implemented.

- That a 5% increase for sheltered housing utility charges, equivalent to £1.65 a week be implemented.

4.25 The total Sheltered Service Charge income will reduce next year following the desheltering of Samford, Tenterpiece, Parkers, Gayford, Newell and Clover. We are currently undertaking a full review of all orders/costs to ensure we are setting charges appropriately.

Salaries

4.26 Table 6 outlines the projected staffing costs, incorporating an assumed Annual Pay Award of 3% and average incremental progression of 2% within grade scale points. Employer contributions include National Insurance at 15% above the £5,000 threshold and employers pension contributions, which reduce from 26% to 16.4% from 2026/27 following the triennial actuarial review of the Pension Fund.

Table 6: Salaries

Service Area	2025/26 Budget	Pay Award 2025/26 Variance (0.2%)	Pension Change (26% to 16.4%)	Growth/ Saving	3% Pay Award	Increments	2026/27 Budget	Total Pressure/ Saving	Salaries Recharged to Capital
Finance	86,997	171	(6,011)	(3,981)	2,348	1,947	81,471	(5,526)	0
Housing Solutions	64,172	126	(4,442)	0	1,824	1,363	63,043	(1,129)	0
HRA General Management	232,171	907	(15,977)	20,270	6,552	5,047	248,970	16,799	0
HRA Housing Repairs and Maintenance	1,760,373	3,164	(121,571)	14,272	45,963	11,971	1,714,173	(46,200)	0
Property Asset & Compliance	1,022,089	2,001	(70,536)	108,942	32,172	19,591	1,114,258	92,169	(376,886)
Regulatory Support Services	410,926	810	(28,417)	33,487	12,686	7,861	437,353	26,427	0
Strategic Property & Development	93,099	181	(6,417)	58,166	4,391	2,782	152,201	59,102	(97,564)
HRA Housing Management	1,343,246	2,645	(90,404)	42,378	39,568	9,527	1,346,961	3,714	0
Grand Total	**5,013,074**	**10,005**	**(343,776)**	**273,535**	**145,503**	**60,089**	**5,158,430**	**145,356**	**(474,450)**

Reserves

4.27 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

4.28 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.

4.29 The 2026/27 budget position means that the Council will reduce its Strategic Priorities Reserve by £8.855m compared to the 2025/26 Q2 forecast reduction in reserve of £2.777m.

4.30 The total balance of all earmarked reserves at 31 March 2027, as a result of the budget proposals, is forecast to be £4.224m, which equates to £1,188 per property. This is dependent on the new build and acquisition programme being delivered on target in the current financial year. Full details of the Councils earmarked reserves are shown in Table 7.

Table 7: Earmarked reserves

Reserves	Balance at 31 March 2025	Forecast Balance at 31 March 2026	2026/27 Budget Deficit	Forecast Balance at 31 March 2027
	£'000	£'000	£'000	£'000
Working Balance	(1,000)	(1,000)	-	(1,000)
Strategic Reserves	(14,856)	(12,079)	8,855	(3,224)
Total Reserves	**(15,856)**	**(13,079)**	**8,855**	**(4,224)**

4.31 The Council continues to hold £1m in the working balance general reserve which equates to less than £300 per property.

Capital

4.32 The proposed capital programme for 2026/27 and the indicative programme for the following two years is shown in Table 8.

Table 8: HRA Capital Programme 2026/27 to 2028/29

Description	2025/26 Original Budget £'000	2025/26 Revised Budget £'000	Q2 2025/26 Forecast £'000	Carry forward to 2026/27 £'000	2026/27 Budget £'000	2027/28 Forecast £'000	2028/29 Forecast £'000
Roofing	5,636	5,636	1,225	-	2,014	2,054	2,096
Window and Door Replacement	776	776	1,634	-	1,114	1,136	1,159
Central Heating	802	802	600	388	1,025	1,045	1,066
Rewiring	429	429	100	329	521	532	542
Electrical Works	-	-	25	-	100	102	104
Insulation	33	33	450	-	304	310	316
Bathrooms	629	629	400	100	466	475	484
Garages, Forecourts & Stores	8	8	25	-	1,004	1,024	1,044
Fences, Gates and Walls	-	-	17	-	-	-	-
Water Mains	-	-	-	-	40	41	42
Kitchens	1,204	1,204	350	200	1,092	1,114	1,136
Major Voids	-	-	550	-	200	204	208
Fire Doors	4	4	100	-	334	340	347
FRA -GN Fire Compartmentation Works	-	-	11	-	259	255	260
Fire Detection (FRA)	299	299	46	254	309	306	104
Emergency Lighting	42	42	10	-	33	15	16
Warden Call	341	341	128	-	10	10	10
Mechanical Heating upgrades SHUS's	-	-	-	-	100	-	-
Mechanical BMS SHUS's	-	-	-	-	50	-	-
LOLER Lift and roller shutter upgrades	-	-	-	-	25	-	-
Newell Court Storage heaters	-	-	-	-	40	-	-
Electrical upgrades SHU's	-	-	-	-	60	61	62
Water Hygiene upgrades	-	-	-	-	20	20	21

Description	2025/26 Original Budget £'000	2025/26 Revised Budget £'000	Q2 2025/26 Forecast £'000	Carry forward to 2026/27 £'000	2026/27 Budget £'000	2027/28 Forecast £'000	2028/29 Forecast £'000
Misting system purchase/installations	-	-	-	-	10	14	19
Planned Maintenance	**10,203**	**10,203**	**5,671**	**1,271**	**9,130**	**9,058**	**9,036**
Other Maintenance Work							
Roads and Paths	20	20	60	-	155	155	155
Dampness & Condensation	46	46	106	-	118	121	123
Sheltered Units - Compartmentation	1,309	1,309	908	400	58	59	60
Major Improvements	-	-	100	-	110	112	114
Structural Works	51	51	51	-	60	62	63
Sewage Treatment Works	-	-	-	-	65	66	68
Unadopted Drains & Sewers	246	246	246	-	40	41	42
Asbestos Improvements	97	97	37	60	164	168	171
Other Responsive Maintenance Work	**1,769**	**1,769**	**1,508**	**460**	**770**	**784**	**796**
Social Housing Decarbonisation Match Fund							
Decarbonisation Match Fund	2,527	2,527	2,527	-	2,895	884	-
Social Housing Decarbonisation Match Fund	**2,527**	**2,527**	**2,527**	**-**	**2,895**	**884**	**-**
Other Work							
Environmental	216	4,474	350	-	350	357	[illegible]
ICT Projects	559	559	559	-	310	136	[illegible]
Council House Adaptions	533	533	533	-	560	571	[illegible]
Horticulture and play equip	30	191	150	-	30	-	-
Other Work	**1,338**	**5,757**	**1,592**	**-**	**1,250**	**1,064**	**1,084**
New Build							
New Build / Acquisitions	-	882	1,000	-	-	-	-
Uplands, Sudbury	3,180	6,381	21	-	2,890	2,030	-
New Build	**3,180**	**7,263**	**1,021**	**-**	**2,890**	**2,030**	**-**
Total	**19,015**	**27,517**	**12,319**	**1,730**	**16,934**	**13,820**	**10,916**

Commented [JW1]: I can't remember if I've asked, but why is there such a change last year? Have we completed most of the works?

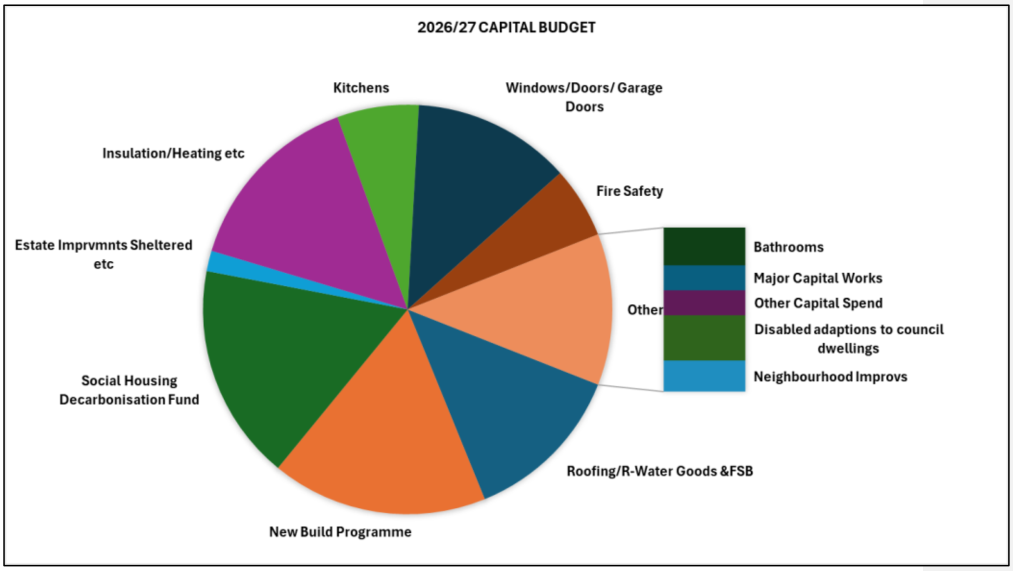
Table 9: HRA Capital Financing 2026/27 to 2028/29

CAPITAL PROGRAMME 2026/27	2025/26 Budget	2025/26 Q2 Forecast	Carry forward to 26/27	2026/27 Budget	2027/28 Budget	2028/29 Budget
HRA Financing	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Decarbonisation Grant	-	-	429	533	518	-
Commuted Sums	-	-	-	-	2,337	-
RTB Receipts	3,180	3,180	-	2,890	2,030	-
Other RTB Receipts	121	120	-	154	159	164
Other Capital Receipts	5,014	-	-	-	-	-
Major Repairs Reserve	8,283	4,701	-	4,232	4,317	4,403
Revenue Contribution to Capital	-	3,297	1,301	9,126	4,460	[illegible]
Revolver Borrowing	10,919	1,021	-	-	-	1,545
Total HRA Capital Financing	**27,517**	**12,319**	**1,730**	**16,934**	**13,820**	**10,916**

Commented [JW2]: This is £10,856k in table 2.

4.33 The Capital Programme for 2026/27 totals £16.934m, chart 2 shows a breakdown of planned spend, the largest being new build programme, social housing decarbonisation and insulation/heating.

Chart 2: 2026/27 Capital Budget



4.34 The Capital budget includes the wave 3 funding from the Social Housing Decarbonisation Fund.

4.35 The Capital Programme has been strategically developed to ensure compliance with both EPCC and Decent Homes targets. We are on track to achieve EPCC by 2028/29, providing a one-year buffer ahead of the 2030 deadline. In terms of Decent Homes, the team is focused on reducing the non-decent properties. By the end of the following year, we anticipate being on course to meet our long-term target of 1%. The only potential delays relate to properties requiring structural monitoring, such as those affected by subsidence, which necessitate extended assessment periods.

4.36 The only development included in the budget is the Uplands site in Sudbury.

4.37 Following the 2024 Autumn Statement, in which the Government announced a significant reduction in Right to Buy (RTB) discounts, we revised our budgeted RTB sales for 2025/26 down to six. However, due to processing times on existing applications, actual activity has been higher than anticipated, with 24 completions recorded in the first half of this year. This spike is expected to be temporary, with volumes forecast to fall sharply next year. Under the new policy, the maximum cash discount, previously £136k will reduce substantially to between £16k and £34k, depending on location. The intention behind this change is to help preserve the existing stock of social housing and ensure that homes sold under RTB can be replaced more effectively.

4.38 The current agreement on spending RTB receipts includes several key provisions aimed at enhancing the flexibility and effectiveness of using these funds for replacement housing:

- Extended Timeframe: Local authorities now have five years to spend new and existing RTB receipts, up from the previous three years.
- Increased Contribution: The maximum permitted contribution from RTB receipts to replacement affordable housing was increased from 50% to 100% for the financial years 2024/25 and 2025/26.
- Use with Section 106 (S106) Contributions: RTB receipts can now be used alongside S106 contributions, which are funds developers must provide for community benefits.
- Acquisition Cap Lifted: The cap on the percentage of replacements delivered as acquisitions each year has been lifted for the same two-year period.
- Retention of Receipts: Local authorities are no longer required to return a proportion of the receipts from RTB sales, allowing them to better replace homes sold under the scheme

  These measures are designed to give local authorities more freedom in using their RTB receipts to address housing needs effectively.

5. RENT SETTING REGIME

5.1 The introduction of Formula rent by the Labour Government in 2002 aimed to align rents in social housing (both local authority and housing association properties) over a ten-year period. The formula considered factors like property values and local earnings, with a "bedroom weighting" to better reflect the value of different properties.

5.2 The goal was to eliminate arbitrary rent differences and create a more equitable system for tenants. Since then, the approach to rent setting has evolved, including changes under subsequent governments, but the initial framework laid the groundwork for how social housing rents are determined today.

5.3 The introduction of Rent convergence in 2002 aimed to address historical discrepancies in rents across comparable properties, ensuring that rents reflected a national formula based on property values and local earnings.

5.4 Current rent levels in Babergh. The practice of rent convergence ended in 2015. This left properties below the current social rent level (Target) rent.

5.5 The rent reduction of 1% starting in April 2016 for four years and the rent cap of 7% in 2023/24 exacerbated this.

5.6 The introduction of rent Tolerance has its roots in housing policy, beginning during the period of large-scale stock transfers (LSVTs). During this period, Councils started to transfer properties to housing associations; several advantages, including private finance and decent homes funding, prompted this. The Government actively encouraged the introduction of Tolerance because this led to a higher value of housing stock, so when the housing association purchased it, the Government would have less debt to write down.

5.7 The application of Tolerance is standard practice in the Housing Association sector. However, in recent years, councils have been using the option to fund upgrades and improvements.

5.8 The rent set may include an upward Tolerance – "Rent Flexibility" – of 5% of formula rent where accommodation is not supported. For supported housing, the upward Tolerance level is 10% from April 2026.

5.9 Babergh faces increasing financial challenges. This is against the backdrop of further financial pressures, such as Awaab’s Law and the evolving Decent Homes Standard. The investment needed to bring the Councils properties up to a good standard could lead to further pressures. We do have a financial pressure in that respect however, there is £2.895m in the capital budget for next year to match fund our application for wave 3.0 social housing decarbonisation fund.
The current financial position remains a concern and is as follows:

- The business plan only maintains the minimum balance of £1m up until year 11.
- The Council requires significant additional income to meet the emerging requirements of tenants and the Regulator.

6. BUSINESS PLAN ASSUMPTIONS

6.1 The following assumptions have been made in the business plan:

- Updated employee costs incl. pension changes
- Rent Convergence at £1 per week for 2027/28 and £2 per week from 2028/29 (see below details)
- Capital budget based on data from the stock condition survey and revised with latest plans.
- Voids set at 1.25%
- 5% tolerance added to Social Housing relets
- 10% tolerance added to Sheltered Housing relets
- Reduction in Right to buys reduced to 6 per year until 2037/38, when it is assumed that the scheme will end
- Build programme to complete in 2027/28

Rent Convergence

Background

6.2 Rent convergence refers to the process of aligning social housing rents with government-defined target rent levels.

Government Consultation

6.3 In the summer, the government launched a consultation proposing two options for annual rent increases to support convergence:

- £1 per week

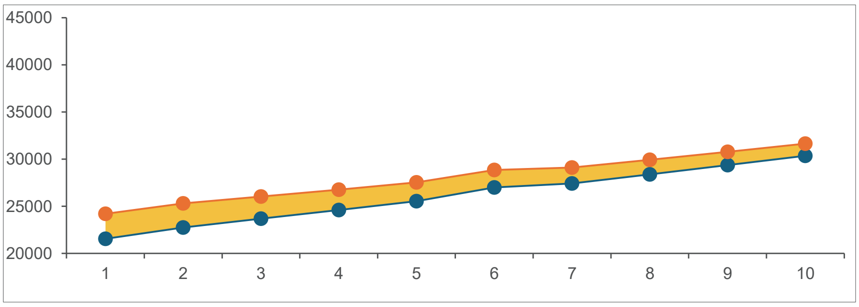
- £2 per week

These incremental uplifts were intended to provide a structured pathway to achieve target rents over time.

Current Position

6.4 The decision on which option to implement was expected in the Autumn Statement but was delayed until 28 January 2026. The government have confirmed that a £1 increase will be allowed for the 2027/28 followed by a £2 increase thereafter. The impact on the business plan is an adverse movement in 2027/28 of £142k on gross rent. Although this is an adverse movement the 30-year business plan remains sustainable for the plan period with all other variables remaining unchanged. The graph below highlights the benefit to the business plan of implementing rent convergence.

Graph showing difference between budgeted Rental Income and income without convergence



£6.28m less income over 30 years without rent convergence

7. LINKS TO OUR PLAN FOR BABERGH

7.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in Babergh's Plan. Specific links are to ensure we are financially responsible with public money.

8. FINANCIAL IMPLICATIONS

8.1 These are detailed in the report.

9. LEGAL IMPLICATIONS

9.1 There are none that apply.

10. RISK MANAGEMENT

10.1 Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
HRA: Babergh District Council may fail to be	2	4	Continued monitoring and reporting of the Councils financial	Strategic Risk Register SRR008BDC

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
financially sustainable			position including actual and reserves. Cabinet briefings to review position and budget options. External value for money audits. Development of robust HRA Business plan (over 30 years) Tactical management team review of LGR requirements	

11. CONSULTATIONS

11.1 Consultations have taken place with the Director, Heads of Service and other Budget Managers as appropriate.

12. EQUALITY ANALYSIS

12.1 The Director and Heads of Service will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics under the Equality Act 2010.

13. ENVIRONMENTAL IMPLICATIONS

13.1 The Councils strategic priorities state that environmental and social responsibilities will be at the heart of all the work the Council does

13.2 Directors, Heads of Service and other Budget Managers will continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.

13.3 In support of the Councils commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken in relation to the housing and sheltered accommodation stock. These are set out in more detail below.

13.4 The new homes 'design and technical specification' that incorporates carbon saving solutions and improve energy efficient standards for all new homes built by the Council and its Growth Company, has now been adopted by the Council.

13.5 A review of Social Housing solar systems performance is underway and will be used to further inform social housing energy generation.

13.6 Social Housing - we are following a programme of energy retrofits to the poorest performing properties rated with an Energy Performance Certificate rating of E and below, with a view to submitting further match funding bids to the Government's Social Housing Decarbonisation Fund (SHDF). A five-year programme of energy retrofits is under development aimed at raising all social housing to an Energy Performance Certificate rating of C or above.

14. APPENDICES

Title	Location
30 Year Business Plan	Appendix A

15. BACKGROUND DOCUMENTS

BCa/25/30 Housing Revenue Account (HRA) Financial Monitoring Q2 Financial Outturn 2025/26

BCa/25/28 Housing Revenue Account (HRA) 2026/27 Draft Budget and 30 Year Business Plan

BC/25/34 Housing Revenue Account (HRA) Business Plan 2026/27

BCa/25/47 HRA and 30 Year Business Plan

Retained RTB receipts and their use for replacement supply: guidance - GOV.UK

16. REPORT AUTHORS

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