

Meeting of:	Cabinet
Date of Meeting:	Thursday, 17 November 2022
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Initial Housing Revenue Account (HRA) Budget Revised Budget 2022/23 and Proposals 2023/24
Purpose of Report:	To gain Cabinet's approval for the Housing Revenue Account revised budget for 2022/23 and the initial budget proposals for 2023/24 and to take the proposals forward for consultation with Homes & Safe Communities and Corporate Performance & Resources Scrutiny Committees.
Report Owner:	Report of the Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Miles Punter Director of Environment and Housing
Elected Member and Officer Consultation:	The Senior Leadership Team has been consulted on this report. The initial budget proposals do not require Ward Member consultation. Officers Consulted: Matthew Bowmer- Head of Finance Miles Punter- Director of Environment and Housing Mike Ingram- Head of Housing & Building Services
Policy Framework:	This report is following the procedure laid down in the Constitution for the making of the budget and so does not need to be referred to Council at the proposal stage. However, the final 2023/24 budget will require the approval of Council.

Executive Summary:

- The report provides an update on the revised Housing Revenue Account Budget for 2022/23.
- The revised budget 2022/23 has increased from a deficit of £11.077m to £16.516m which will be funded from Housing Revenue Account reserves.
- The Housing Revenue Account reserve level as at 31st March, 2022 was £17.439m, which was higher than expected due to lower capital expenditure being incurred in 2021/22. This drawdown will bring the Housing Revenue Account reserve balance back into line with the Housing Business plan for 31st March, 2023.
- The report sets out initial Housing Revenue Account budget proposals for 2023/24.
- The initial budget for 2023/24 has moved from an original deficit budget £11.077m to a surplus of £26k.
- The 2023/24 budget has assumed a reduction in Capital Expenditure Revenue Account (CERA) of £12.745m, bringing the budget contribution to £5.707m. This will leave an anticipated balance on the Housing Revenue Account reserve of £949k as at March 2024.
- Other significant cost increases in 2023/24 are capital financing due to additional borrowing, increase in interest rates and higher repair costs due to an increase in supply costs and schedule of rates.

Recommendations

1. That Cabinet approves the revised Housing Revenue Account budget for 2022/23 as set out in paragraph 2.2.
2. That Cabinet approves the initial Housing Revenue Account budget proposal for 2023/24 as set out in paragraph 2.11.
3. That the revised 2022/23 budget and initial proposals for 2023/24 be referred to Scrutiny Committee (Homes and Safe Communities) for consideration.
4. That Scrutiny Committee (Homes and Safe Communities) Scrutiny Committee be requested to refer comments to Scrutiny Committee (Corporate Performance and Resources) as the lead Scrutiny Committee in order for their views to be forwarded to Cabinet.
5. That Cabinet notes the increase for rent and other services are subject to a future report to Cabinet as soon as the guidance is issued by the Welsh Government (WG).

Reasons for Recommendations

1. To facilitate monitoring of the amended Housing Revenue Account Budget.
2. To gain approval for the initial 2023/24 budget proposals.
3. In order to gain the views of Scrutiny Committee regarding the revised 2022/23 and initial 2023/24 Housing Revenue Account Budget proposals.
4. In order that Cabinet be informed of the comments of Scrutiny Committee before making a final proposal on the budget.
5. In order to meet the statutory deadline to notify tenants of the new charges as required by Statute.

1. Background

- 1.1 Each local housing authority is required under Section 74, of the 1989 Local Government and Housing Act to keep a Housing Revenue Account. Section 76 of the Act requires local authorities to set a budget for their Housing Revenue Account (HRA) on an annual basis. The budget must be set so that the sum held in the Housing Revenue Account reserve at year end is not in a deficit position.
- 1.2 During the course of the year, local authorities must review their HRA expenditure and income and if, on the basis of the information available the account is heading for a deficit, they must take steps that are reasonably practical to prevent this deficit. A local authority is not prohibited from being in deficit but will need to demonstrate that the deficit has arisen through exceptional circumstances and that it has revised its original proposals so far as reasonably practical to avoid the deficit. Such a deficit shall be carried forward and must be made good the following year.

- 1.3** Each local authority should endeavour to have a working balance on the HRA, for any exceptional circumstances that may arise.
- 1.4** The level of rent increase is based on a rent policy introduced by Welsh Government. At the time of writing this report, an announcement had not yet been made, therefore, an average rent increase of 2.75%, has been included in the 2023/24 initial budget proposals, which is in line with the Housing Business Plan - February 2022. The budget is under huge pressure post Covid-19, in a cost of living crisis, high levels of inflation and high costs of borrowing due to high interest rates. Any lower than expected rent increase will impact the viability of the Housing Business Plan 2023/24.

2. Key Issues for Consideration

- 2.1** As the HRA is ring fenced, any growth has to be funded from within its balance.

Revised 2022/23 Budget

- 2.2** The following table compares the original budget with the proposed amended budget for 2022/23.

	2022/23 Original Budget	2022/23 Proposed Budget	Variance Favourable (-) Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account (Surplus)/Deficit	11,077	16,516	5,439

- 2.3** It is proposed that the net operational budget for 2022/23 is increased from a deficit of £11.077m to a deficit of £16.516m. The operational budget's surplus or deficit will adjust the level of the Housing Revenue Account reserve. At the end of 2021/22, the level of the Housing Revenue Account reserve was £17.439m, which is a higher level than previously projected due to lower than expected spend on the 2021/22 Capital Programme and therefore the proposed change to the operational budget will result in a reduction in the balance of this reserve to bring it in line with the level required in the Housing Business Plan 2022/23. The Housing Business Plan 2023/24 is currently under review.
- 2.4** The balance on the HRA reserve brought forward as at 1st April, 2022 is £17.439m and is currently higher than projected as part of the Housing Business Plan. It is prudent to maintain the HRA revenue reserves at a minimum balance. The level of Capital Expenditure funded from the Revenue Account (CERA), has been recalculated at £23.789m, which is an increase of £5.337m. This will leave a balance on the HRA reserve at year end of £923k, which is in line with the minimum amount required as per the Business Plan. However, due to challenges in project delivery it is unlikely that there will be total spend of £23.789m, this

figure is being continually reviewed and the HRA Reserve is certain to be greater than the £923k currently forecast at year end.

- 2.5** On addition to the major adjustment to the 2022/23 plan for CERA there have been a number of areas of increasing costs and compensating reductions and savings.
- 2.6** A review of the current budget has found the following increased costs totalling £854k:
- Employee costs are anticipated to be £187k more than budgeted due to the revised pay award and staff changes. Increased costs for consultants £15k, utilities £43k, survey costs £9k, general grant expenses £9k, Software licence fees £2k and subscriptions £2k.
 - Repairs costs are expected to increase by £484k due to significant increase in supply costs and includes a new contract for fire door servicing and inspection.
 - The charges for services and facilities are expected to be £18k less than budgeted. Court cost income has been reduced by £21k as reductions in court applications are being made due to Covid-19. Commission on Welsh Water collections has been reduced by £27k. Reduction in technical salaries being recharged to capital is £17k. Lease premium renewal reduced by £2k. Rental income (net of Voids) has also decreased by £18k.
- 2.7** These costs have been offset with the following potential savings this year of £715k. The main reason for this is that the budget relating to the increase in the provision for bad and doubtful debts has been reduced from £673k to £159k saving £514k. The original provision was based on 3% of the total dwelling and service charge income and the revised figure for the increase in provision £159k is based on forecasted rent arrears to 31st March, 2023.
- 2.8** There are also a number of small adjustments:
- A reduction in Capital Financing Costs of £36k is anticipated due to a lower level of borrowing required to fund the Capital Programme.
 - Digital transformation will be continuing into 2023/24 and therefore is projected to underspend by £50k.
 - Other budgets that are expected to outturn with an under spend are: Court fees £32k, Transport £6k, Hardware £6k, Insurance £12k, printing £1k and various underspends totalling £5k.
 - There is an Increase in grant income of £45k which will offset the £38k increase in employee costs and there also is an increase in interest income £8k due to a larger balance held in the HRA reserve.

Base Budget 2023/24

- 2.9** The Financial Strategy for 2023/24 as approved by Cabinet on 6th October, 2022 (Minute number C92) outlined that, in order to establish a baseline, services

should prepare revenue budgets for next year based on the cost of providing the current level of service and approved policy decisions.

2.10 The HRA is a ring-fenced account and therefore any growth and inflationary pressures have to be funded from its available funds.

2.11 The revised 2022/23 and proposed 2023/24 budget is set out below:

HOUSING REVENUE ACCOUNT Projected Income and Expenditure			
2022/23 Original Budget £000	2022/23 Revised Budget £000		2023/24 Initial Proposed Budget £000
		Expenditure	
4,158	4,223	Supervision & Management – General	4,156
1,386	1,454	Supervision & Management – Special	1,499
3,727	4,211	Repairs & Maintenance	4,681
4,963	4,927	Capital Financing Costs	5,910
237	193	Rent, Rates, Taxes & Other Charges	239
673	159	Increase in Provision for Bad Debts	691
18,452	23,789	Capital Expenditure from Revenue Account (CERA)	5,707
33,596	38,956		22,883
		Income	
(21,299)	(21,281)	Dwelling Rents	(21,915)
(162)	(162)	Non Dwelling Rents	(168)
(5)	(13)	Interest	(7)
(545)	(530)	Charges For Services and Facilities	(540)
(303)	(249)	Contribution towards expenditure	(74)
(205)	(205)	Grant Income	(205)
(22,519)	(22,440)		(22,909)
11,077	16,516	(Surplus)/ deficit for the year	(26)

HOUSING REVENUE ACCOUNT Projected Movement on Reserve			
2022/23 Original Budget £000	2022/23 Revised Budget £000		2023/24 Initial Proposed Budget £000
(12,000)	(17,439)	Balance Brought Forward as at 1 st April (Surplus)/Deficit	(923)
(923)	(923)	Balance Carried Forward as at 31 st March (Surplus)/Deficit	(949)

2.12 The table below sets out the changes to the original 2022/23 budget to bring forward the proposed budget for 2023/24. The changes are detailed in the paragraphs below.

	£000
Original Budget 2022/23	11,077
Pay/Inflation	136
Committed Growth/(Savings)	2,128
Dwelling & Non Dwelling Rent Increase	(622)
Increase / (Decrease) in CERA	(12,745)
Proposed Budget	(26)

2.13 A provision for general inflation £136k includes an allowance for pay award correction of the base budget 2022/23 at £,1925 per spinal point, pay award of 3% in 2023/24 and staff changes in 2023/24 of £87k. The remaining £49k is inflation on utilities at 20% and insurance at 10%.

2.14 The committed growth of £2.128m is due to a number of factors;

- An increase in Capital Financing charges of £947k in relation to an increased level of unsupported borrowing being taken out in 2023/24 to fund the Housing Improvement Programme. This is based on an indicative borrowing figure of £42m in 2023/24 which is ambitious.
- An increase in staff costs of £101k due to changes in staff and increments.
- An increase in Premises costs of £42k mainly due to an increase in utility costs.
- An increase in Repair costs £954k due to an increase in the Schedule of Rates and new fire door inspection contract.
- An increase in the provision for bad and doubtful debts of £18k.
- A decrease in Supplies & Services of £134k, of which £130k is due to reprofiling of spend for the purchase of the new software system, reduction in Insurance recharge £12k and increase in survey costs £8k.
- A decrease in Transport costs of £6k.

- A decrease in Income of £206k mainly due to commission on Water collections ceasing from April 2023.

- 2.15** A decrease in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £12.745m has been assumed. The amount of revenue contribution required £5.707m is dictated by available revenue balances and the value of the Housing Improvement Programme. Adjusting the level of CERA by this amount will leave a minimum HRA Reserve of £923k as at 31st March, 2023, which is broadly in line with the Housing Business Plan.
- 2.16** The rental increase for 2023/24 is currently assumed at 2.75%. Rental increases are determined by the Welsh Government Rent Policy guidance which is expected to be received late November 2022. The Rented Homes Wales Act is due to come into effect 1st December, 2022 which requires the Local Authority to give tenants two months' notice instead of the previous 28 days, of any increase in rents and service charges.

Next Steps

- 2.17** The next stage is for the estimates to be submitted to Scrutiny Committees for consideration. Corporate Performance and Resources Scrutiny Committee is the lead Scrutiny Committee and will consider both the Initial Housing Revenue Budget Proposals and any comments that other Scrutiny Committees have made. The responses of Scrutiny Committee must be made no later than 14th December, 2022.
- 2.18** There will be a series of Budget Working Group sessions in late November. At these sessions the relevant Cabinet Members and officers will consider the cost and savings assumptions in the budget proposals. Their views will inform Cabinet when it considers the final budget proposal report scheduled for 5th January, 2023.
- 2.19** Cabinet's final budget proposals will be considered by Council at a meeting to be arranged for mid-January 2023.
- 2.20** Due to the late announcement of the final settlement the approved timetable will be reviewed to ensure decisions regarding the budgets for 2023/24 can be fully informed by the funding levels available.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1** Looking to the long term - The HRA is a significant resource, with an annual budget set to support the required level of service to tenants, all approved policy decisions and to maintain an ongoing working balance to cover the cost of any exceptional circumstances that may arise.

- 3.2 Taking an integrated approach - Welsh Government sets the rent policy for social housing properties on an annual basis and the HRA budget and charges have been set based on the required target rent bands whilst also ensuring that they do not breach the housing benefit rent rebate limits set by the DWP.
- 3.3 Involving the population in decisions - The Housing Service continues to consult regularly with its tenants both through formal consultation exercises and through the Tenants Panel.
- 3.4 Working in a collaborative way - The Housing Service places collaboration and coproduction at its core through its work with other departments and statutory and voluntary sector partners both locally and at a regional level.
- 3.5 Understanding the root causes of issues and preventing them - Feedback from tenants is used to inform and improve service delivery and tenants are kept up to date and offered assistance to prepare for any changes in national policy such as welfare reforms in order to mitigate the impact on them and the HRA.

4. Climate Change and Nature Implications

- 4.1 The Council understands the importance of decarbonisation to help protect and sustain the environment over the long term and in line with its Climate emergency declaration is working and investing in measures to reduce its CO² emissions and impacts on our tenants. Several projects are included in the 2022/23 and proposed 2023/24 Housing Improvement Programme which will assist the work the Council is undertaking as part of Project Zero and commitments in the Council's Climate Challenge Plan. The Housing Improvement programme is partly funded by Capital Expenditure funded from the Revenue Account (CERA).
- 4.2 All schemes progressed as part of the proposals set out the decarbonisation considerations that will be considered in formulating the individual project. Further details on Decarbonisation within the Housing Improvement programme can be found in the Housing Business Plan 2022/23 section 2.0.

5. Resources and Legal Considerations

Financial

- 5.1 The Housing Revenue Account working balance at 1st April, 2023 is projected to be £923k.

Employment

- 5.2 There is no impact on staffing as a result of this report.

Legal (Including Equalities)

- 5.3** The Council under the 1989 Local Government and Housing Act have a legal obligation to set a budget for the Housing Revenue Account. The Rented Homes Wales Act comes into effect 1st December, 2022 which states that notices of any increase in rent have to be sent to tenants 2 months in advance of the new changes coming into effect.
- 5.4** Housing Services are carried out in accordance with the Council's Equal Opportunities policies and practices.

6. Background Papers

[Housing Business Plan – February 2022](#)