

Meeting of:	<b>Cabinet</b>
Date of Meeting:	<b>Thursday, 28 November 2024</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Initial Housing Revenue Account (HRA) Budget Revised Budget 2024/25 and Proposals 2025/26
Purpose of Report:	To gain Cabinet approval for the Housing Revenue Account revised budget for 2024/25 and the initial budget proposals for 2025/26 and to take the proposals forward for consultation with Homes and Safe Communities and Corporate Performance and Resources Scrutiny Committees.
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Director of Environment and Housing
Elected Member and Officer Consultation:	The Corporate Management Team has been consulted on this report. The initial budget proposals do not require Ward Member consultation.  Officers Consulted:  Matt Bowmer - Head of Finance  Miles Punter - Director of Environment and Housing  Mike Ingram - Head of Housing and 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 2025/26 budget will require the approval of Council.
<p>Executive Summary:</p> <ul style="list-style-type: none"> <li>• The report provides an update on the revised Housing Revenue Account Budget for 2024/25.</li> <li>• The revised budget 2024/25 has increased from a surplus of £77k to £667k which will see a contribution into Housing Revenue Account reserves, this is a planned increase as set out below.</li> <li>• The Housing Revenue Account reserve level as at 31st March 2024 was £3.524m, which was higher than expected due to possible outstanding liabilities in 2024/25. This transfer will bring the Housing Revenue Account reserve balance to £4.191m as at 31st March 2025.</li> </ul>	

- The revised Housing Improvement Programme is included in the Quarter 2 Capital Monitoring report also on this agenda totalling £38.609m in 2024/25.
- The report sets out initial Housing Revenue Account budget proposals for 2025/26.
- The initial budget for 2025/26 has moved from an original surplus budget £77k to a surplus of £41k. With total projected expenditure of £27.833m and total projected income of £27.874m.
- The 2025/26 budget has assumed a reduction in Capital Expenditure Revenue Account (CERA) of £1.542m, bringing the budget contribution to £6.655m. This will leave an anticipated balance on the Housing Revenue Account reserve of £4.232m as at March 2026.
- There are a number of significant cost increases in 2025/26 in respect of capital financing due to additional borrowing undertaken as part of the Housing Business Plan, increase in interest rates charged on borrowing and higher repair costs due to an increase in supply costs and increase in services and inspections.

## **Recommendations**

1. Cabinet approves the revised Housing Revenue Account budget for 2024/25 as set out in paragraph 2.2.
2. Cabinet approves the initial Housing Revenue Account budget proposal for 2025/26 as set out in paragraph 2.11.
3. Cabinet submits the revised 2024/25 budget and initial proposals for 2025/26 to the Homes and Safe Communities Scrutiny Committee for consideration and that any recommendations are forwarded to Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee in order for their recommendations to be forwarded to Cabinet.
4. 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 2025/26 budget proposals.
3. In order to gain the views of Scrutiny Committee regarding the revised 2024/25 and initial 2025/26 Housing Revenue Account Budget proposals.
4. In order to meet the 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 initially drafting this report, an announcement had not been made and the modelling had been working to an average rent increase of 3%, with CPI hovering around 2% being included in the 2025/26 initial budget proposals, in line with the Housing Business Plan – January 2024. CPI reduced to 1.7% in September, so the more recent expectation was for a 2.7% maximum increase and that was confirmed by Welsh Government on 13th November 2024. The budget is under huge pressure because of high costs of borrowing due to higher interest rates. Any significantly lower than expected rent increase will impact the viability of the Housing Business Plan 2025/26, the proposals included are under continued review.

## **2. Key Issues for Consideration**

**2.1** This report sets out the revised budget for 2024/25 and the initial proposals for the 2025/26 budget. It should be noted that as the HRA is a ring fenced fund, any growth that is required has to be funded from within its balance.

### **Revised 2024/25 Budget**

**2.2** The following table compares the original budget with the proposed amended budget for 2024/25. The revised proposals for the 2024/25 budget reflect the current projected outturn for the Housing Revenue Account.

Table One - Revised 2024/25 Budget

	2024/25 Original Budget	2024/25 Proposed Budget	Variance Favourable (-) Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account (Surplus)/Deficit	(77)	(667)	(590)

**2.3** It is proposed that the net operational budget for 2024/25 is increased from a surplus of £77k to a surplus of £667k. The operational budget's surplus or deficit will adjust the level of the Housing Revenue Account reserve. At the end of 2024/25, the level of the Housing Revenue Account reserve was £3.524m, which is a higher level than previously projected. This balance was due to outstanding liabilities resulting from the Rented Homes Wales Act (RHWA). The proposed change to the operational budget in 2024/25 will result in an increase in the balance of this reserve to hold two months' rent. The Housing Business Plan 2025/26 is currently under review as set out within this report.

**2.4** The balance on the HRA reserve brought forward as at 1st April 2024 is £3.524m and is currently higher than projected as part of the Housing Business Plan. It is prudent to maintain the HRA revenue reserves above a minimum balance. The level of Capital Expenditure funded from the Revenue Account (CERA) has been

recalculated at £7.156m, which is a decrease of £1.041m. This increases the surplus budget and therefore the transfer to the reserve will leave a balance on the HRA reserve at year end of £4.191m. The Housing Business plan working balance will be reviewed and amended to reflect a holding balance of two months' worth of rent.

- 2.5** The amended funding of the Housing Improvement Programme in the 2024/25 Capital Programme is reflected in the Quarter 2 Capital Monitoring also included on this agenda and the amended funding is set out in the Table Two below.

Table Two - HRA Funding

<b>Funding</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>
CERA (reserves)	7,156	8,168	7,062	6,660	6,462
Internal Reserves	374	0	0	£0	0
MRA	2,770	2,770	2,770	2,770	2,770
Grants	3,458	2,800	2,800	2,800	2,800
S106	600	600	600	100	0
Land sale/CR	0	600	1,000	2,180	2,180
Borrowing	24,251	30,490	27,738	25,124	33,005
<b>Total Funding</b>	<b>38,609</b>	<b>45,428</b>	<b>41,970</b>	<b>39,634</b>	<b>47,217</b>
Expenditure	45,828	38,209	41,970	39,634	47,217
Slippage	-7,219	7,219	0	0	0
<b>Total Expenditure</b>	<b>38,609</b>	<b>45,428</b>	<b>41,970</b>	<b>39,634</b>	<b>47,217</b>

- 2.6** In addition to the major adjustment to the 2024/25 plan for CERA there have been a number of areas of increasing costs and compensating reductions and savings the revised 2024/25 budget is detailed in paragraph 2.11 below.

- 2.7** A review of the current budget has found the following increased costs totalling £1.059m:

- Employee costs are anticipated to be £90k more than budgeted due to the current proposals for the pay award and other staff changes.
- Repairs costs are expected to increase by £894k due to a significant increase in supply costs, increase in repairs and inspections and void costs.
- Premises costs are expected to increase by £2k.
- The charges for services and facilities are expected to be £11k less than budgeted.
- Court cost income has been reduced by £21k as reductions in court applications are being made in accordance with the amended rent policy.
- Supplies and services are expected to increase by £41k due to consultant fees.

- 2.8** These costs have been offset with the following potential savings this year totalling £1.109m. 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 £1.027m to £154k saving £873k. The original provision was based on 4% of the total dwelling and service charge income and the revised figure for the increase in provision is now £154k which is based on forecasted rent arrears to 31st March 2025. There is also a revenue saving due to an increase in technical salaries being recharged to capital of £92k and an increase in investment income of £144k.

- 2.9** There are also a number of large adjustments:
- A reduction in Capital Financing Costs of £596k is anticipated due to a lower level of borrowing required in accordance with slippage on the Capital Programme.
  - Rental income (net of voids) has also decreased by £1.117m in year mainly due to the delay of numerous new build schemes coming onto stock.

### Base Budget 2025/26

- 2.10** The Financial Strategy for 2025/26 as approved by Cabinet on 18th July 2024 (Minute number C79) 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.
- 2.11** The HRA is a ring-fenced account and therefore any growth and inflationary pressures have to be funded from its available funds.
- 2.12** The revised 2024/25 and proposed 2025/26 budget is set out below:

Table Three - Revised 2024/25 and Initial 2025/26 Budget – Projected Income and Expenditure

2024/25 Original Budget	2024/25 Revised Budget		2025/26 Initial Proposed Budget
£000	£000		£000
		<u>Expenditure</u>	
4,695	4,744	Supervision & Management – General	4,856
1,949	1,937	Supervision & Management – Special	1,952
5,000	5,894	Repairs & Maintenance	5,920
5,792	5,196	Capital Financing Costs	7,328
270	254	Rent, Rates, Taxes & Other Charges	286
1,027	154	Increase in Provision for Bad Debts	836
8,197	7,156	Capital Expenditure from Revenue Account (CERA)	6,655
26,930	25,335		27,833

		<u>Income</u>	
(25,793)	(24,676)	Dwelling Rents	(26,483)
(186)	(185)	Non Dwelling Rents	(186)
(45)	(189)	Interest	(215)
(684)	(673)	Charges For Services and Facilities	(690)
(94)	(74)	Contribution towards expenditure	(95)
(205)	(205)	Grant Income	(205)
(27,007)	(26,002)		(27,874)
(77)	(667)	(Surplus)/ deficit for the year	(41)

Table Four - Projected Movement on Reserve

2023/24 Original Budget	2023/24 Revised Budget		2025/26 Initial Proposed Budget
£000	£000		£000
(949)	(3,524)	Balance Brought Forward as at 1st April (Surplus)/Deficit	(4,191)
(1,026)	(4,191)	Balance Carried Forward as at 31st March (Surplus)/Deficit	(4,232)

**2.13** Table Five below sets out the changes to the original 2024/25 budget to bring forward the proposed budget for 2025/26. The changes are detailed in the paragraphs below.

Table Five - Summary of changes

	£000
Original Budget 2024/25	(77)
Pay/Price Inflation	106
Committed Growth/(Savings)	2,162
Dwelling & Non Dwelling Rent Increase	(690)
Increase/(Decrease) in CERA	(1,542)
Proposed Budget Deficit 2025/26	(41)

**2.14** A provision for general inflation £106k includes an allowance for pay award correction of the base budget 2024/25 at £1.290 per spinal point, pay award of 3% in 2024/25 and staff changes.

**2.15** The committed growth of £2.162m is due to a number of factors:

- An increase in Capital Financing charges of £1,536m in relation to an increased level of unsupported borrowing being taken out in 2025/26 to fund the Housing Improvement Programme. This is based on an indicative borrowing figure of £24m in 2024/25 which is ambitious.

- An increase in staff costs of £115k due to changes in staff and increments.
- A minor increase in Premises costs of £1k.
- An increase in Repair costs £920k due to an increase in services provided, supply and void costs.
- A reduction in the provision for bad and doubtful debts of £191k, based on 3% instead of 4% reflecting collection rates.
- A decrease in Supplies and Services of £17k.
- An increase in Technical salary recharges to capital income of £31k.

**2.16** A decrease in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £6.655m has been assumed. The amount of revenue contribution required £6.655m 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 £4.191m as at 31st March 2025, which is broadly two months' rent.

**2.17** The rental increase for 2025/26 is currently assumed at 3%. Rental increases are determined by the Welsh Government Rent Policy guidance which is expected to be received November 2024. The Rented Homes Wales Act came 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.

**2.18** The current rent policy is under review but in previous years the maximum rental uplift was CPI plus 1 as at the previous September. CPI at September 2024 was 1.7% so it was anticipated that the maximum increase would be 2.7%. The Rent Settlement Letter from Welsh Government was received on 13 November, a little earlier than in recent years, and confirms the approach of a maximum of a 2.7% increase.

**2.19** The Housing Business Plan 2025/26 is under review and has been modelling a 3% increase in dwelling rents for 2025/26. The rental increase in the Business Plan 2025/26 which goes forward to Council in January 2025 will naturally be lower than the 3% modelled with 2.7% being the maximum so there is further modelling to be carried out.

### **Next Steps**

**2.20** 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 Committees must be made in good time to enable Cabinet to take them into account when considering the 2025/26 Business Plan in January 2025.

**2.21** 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 9th January 2025.

- 2.22** Cabinet's final budget proposals will be considered by Council at a meeting to be arranged for early January 2025, likely to be 13th January 2025.

Timetable

<b>Date</b>	<b>Body</b>	<b>Activity</b>
4h December 2024	Homes and Safe Communities Scrutiny Committee	Initial Housing Revenue Account Revised Budget 2024/25 and Proposals 2025/26
18th December 2024	Corporate Performances and Resources Scrutiny	Initial Housing Revenue Account Revised Budget 2024/25 and Proposals 2025/26
8th January 2025	Homes and Safe Communities Scrutiny	HRA Business Plan and Rent Setting
9th January 2025	Cabinet	HRA Business Plan and Rent Setting
13th January 2025	Special Council	HRA Business Plan and Rent Setting

**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 CO<sup>2</sup> emissions and impacts on our tenants. Several projects are included in the 2024/25 and proposed 2025/26 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 2024/25 section 2.0.

## **5. Resources and Legal Considerations**

### **Financial**

- 5.1** The financial considerations are set out in the body of the report.

### **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 came 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 – January 2024