

Meeting of:	Cabinet
Date of Meeting:	Monday, 22 November 2021
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Initial Housing Revenue Account (HRA) Budget Proposals 2022/23 and Revised Budget 2021/22
Purpose of Report:	To gain Cabinet's approval for the Housing Revenue Account amended budget for 2021/22 and the initial budget proposals for 2022/23, so that the proposals may be submitted to Scrutiny Committee for consultation.
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 Corporate Management Team has been consulted on this report. The initial budget proposals do not require Ward Member consultation. Officers Consulted: Carys Lord- 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 2022/23 budget will require the approval of Council.
Executive Summary:	<ul style="list-style-type: none"> • The report provides an update on the revised Housing Revenue Account Budget for 2021/22. • The report sets out initial Housing Revenue Account budget proposals for 2022/23.

Recommendations

It is recommended:-

1. The amended Housing Revenue Account budget for 2021/22 as set out in Appendix 1 be approved and submitted to the Homes and Safe Communities Scrutiny Committee for consideration to provide a context for recommendation 2.
2. The initial Housing Revenue Account budget proposal for 2022/23 be approved for consultation and are referred to the Homes and Safe Communities Scrutiny Committee.
3. The recommendations of the Homes and Safe Communities Scrutiny Committee are passed to Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee in order for their views to be forwarded to Cabinet.
4. The increase for rent and other services are subject to a future report to Cabinet as soon as the information is available from the Welsh Government (WG).

Reasons for Recommendations

1. To facilitate monitoring of the amended Housing Revenue Account Budget.
2. In order to gain the views of Scrutiny Committee regarding the 2022/23 Housing Revenue Account Budget proposals.
3. In order that Cabinet be informed of the comments of Scrutiny Committee before making a final proposal on the budget.
4. 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 1.5%, has been included in the 2022/23 initial budget proposals, which is in line with the Housing Business Plan - February 2021.

2. Key Issues for Consideration

Amended Budget 2021/22

- 2.1** As the HRA is ring fenced, any growth has to be funded from within its balance.
- 2.2** The following table compares the original budget with the proposed amended budget for 2021/22.

	2021/22 Original Budget	2021/22 Proposed Budget	Variance Favourable (-) Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account (Surplus)/Deficit	(25)	11,085	11,110

- 2.3** It is proposed that the net operational budget for 2021/22 has changed from a surplus of £25k to a deficit of £11.085m. The operational budget's surplus or deficit will adjust the level of the Housing Revenue Account reserve. At the end of 2020/21, the level of the Housing Account reserve was at a higher level than previously projected 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.
- 2.4** A review of the current budget has found a potential net saving this year of £1.285m. 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 £1.271m to £249k saving £1.022m. The original provision was based on 6% of the total dwelling and service charge income and the revised figure for the increase in provision £249k is based on forecasted rent arrears to 31st March 2022. A reduction in Capital Financing Costs of £112k is anticipated due to a lower level of borrowing required to fund the Capital Programme. Digital transformation is expected to be carried out towards the end of 2021 and therefore will underspend by £100k. Other budgets that are expected to outturn with an under spend are: Court fees £25k, Leaflets & Publications costs £43k, Advertising £15k,

Transport £4k, and an increase in transfer of Technical salaries £130k, hardware purchases £7k and various underspends totalling £2k. Central recharges have decreased by £19k mainly due to insurance premium due to less housing tenant claims.

Rental income (net of Voids) has also increased by £18k.

- 2.5** These savings have been offset by the following: Employee costs are anticipated to be £76k more than budgeted due to agency costs. Increased costs in rates £48k, Utilities £10k, cleaning £3k, increase in Software licences £19k, communication costs £5k, and occupation health assessments £12k. There is also an expected decrease in interest income of £5k. The charges for services and facilities are expected to be £13k less than budgeted. Court cost income has been reduced by £21k as no court applications are being made to Covid-19.
- 2.6** The balance on the HRA reserve brought forward as at 1st April 2021 is £12m 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 £18.786m, which is an increase of £12.394m. This will leave a balance on the HRA reserve at year end of £915k, which is in line with the minimum amount required as per the Business Plan.

Base Budget 2022/23

- 2.7** The Budget Strategy for 2022/23 as approved by Cabinet on the 19th July 2021 (Minute number C632) 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.
- 2.8** The HRA is a ring-fenced account and therefore any growth and inflationary pressures have to be funded from its available funds.
- 2.9** The proposed 2022/23 budget is set out at Appendix 1 and is identified over the following areas.
- Supervision & Management (General) - This budget head relates to the general management of the Council's housing stock, for work carried out within the Housing service, and for various issues relating to the Council tenancies excluding the repairs and maintenance function.
 - Supervision & Management (Special) - This budget relates to the running expenses and the cost of staff employed directly within the Housing service, in relation to functions such as sheltered housing schemes, running the hostel and temporary accommodation.
 - Repairs & Maintenance - This budget relates to the revenue repairs and maintenance service for the Council Housing Stock.
 - Capital Financing Costs - Costs associated with financing HRA debt.

- Rents, Rates, Taxes and Other Charges - This budget head relates to items such as expenditure on Council Tax at long void properties, legal expenses, surveying costs, compensation and insurance.
- Increase in Provision for Bad Debts - This budget identifies the amount by which the current level of provision should be increased by in year.
- Capital Expenditure from Revenue Account (CERA) - This budget relates to a contribution made from the Housing Revenue Account to fund capital expenditure.
- Dwelling Rents - This is the net rent due to the Council for all properties whether General Needs, OAP designated, Sheltered Complexes, Hostel or Temporary Accommodation.
- Non Dwelling Rents - This represents the net rental income due to the Council for HRA owned garages.
- Interest - This budget relates to interest receivable on the average HRA Reserve Balance.
- Charges for Services and Facilities - This budget identifies amounts due to the Council by tenants and leaseholders and some private individuals for services and facilities provided by the HRA.
- Contribution towards expenditure – This budget identifies any contributions received from outside bodies or persons towards expenditure which has been incurred by the HRA.
- Grant Income – This budget relates to the Affordable Housing Grant (AHG) revenue grant income received from Welsh Government which supported 2 new Council house building schemes. The Council has taken out a loan to fund capital expenditure and the AHG will be paid as an annual grant over a 29 year period and will be used to finance the interest and capital repayments of the debt.

2.10 Set out below is a table summarising the original budget for 2021/22 with the proposed budget for 2022/23.

2021/22	Pay	Committed	Dwelling & Non	Increase /	2022/23
Original	/Inflation	Growth /	Dwelling Rent	(Decrease) in	Proposed
Budget		(Savings)	Increase	CERA	Budget
£000	£000	£000	£000	£000	£000
(25)	40	242	(311)	46	(8)

2.11 A provision for general inflation includes an allowance for pay awards in 2022/23.

2.12 The net growth of £242k is due to a number of factors;

- An increase in Capital Financing charges of £914k in relation to an increased level of unsupported borrowing being taken out in 2022/23 to fund the Housing Improvement Programme.
- An increase in staff costs of £55k due to changes in staff NI and increments.
- An increase in Premises costs of £21k mainly due to an increase in utility costs, rates and cleaning costs.
- An increase in Repair cost £70k due to an increase in the Schedule of Rates.
- A decrease in the provision for bad and doubtful debts of £614k due the rate being reduced from 6% in 2122 to 3% in 2223. The average current tenant arrears over the last year is 2.5%.
- A decrease in Supplies & Services of £39k, of which £19k relates to decreased insurance costs, savings of £43k on leaflets and publications and increased costs for software licence fees £21k and various increased costs of £2k.
- An increase in Transport of £1k.
- An increase in Income of £159k due to an increase in technical fees income with regards to new builds and capital project team.
- A decrease in Central Support of £7k.

2.13 An increase in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £46k has been assumed. The amount of revenue contribution required 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.

Next Steps

- 2.14** The next stage is for the estimates to be submitted to Scrutiny Committees for consultation. 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 8th December 2021.
- 2.15** The Budget Working Group will hold a series of meetings in November/December 2021 with the relevant Cabinet Members and officers to consider the budget proposals. They will submit their recommendations so that the Cabinet may make its final budget proposal no later than 14th February 2022. Before making its recommendation, the Budget Working Group will consider the comments made by Scrutiny.
- 2.16** Cabinet's final budget proposals will be considered by Council at a meeting to be held on 7th March 2022.

- 2.17** Due to the late announcement of the final settlement the approved timetable will be reviewed to ensure decisions regarding the budgets for 2022/2023 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. Resources and Legal Considerations

Financial

- 4.1** The Housing Revenue Account working balance at 1st April 2022 is projected to be £915k.

Employment

- 4.2** There is no impact on staffing as a result of this report

Legal (Including Equalities)

- 4.3** The Council under the 1989 Local Government and Housing Act have a legal obligation to set a budget for the Housing Revenue Account. Notices of any

increases have to be sent to tenants 28 days in advance of the new changes coming into effect.

- 4.4** Housing Services are carried out in accordance with the Council's Equal Opportunities policies and practices.

5. Background Papers

Housing Business Plan – February 2021

HOUSING REVENUE ACCOUNT			
Projected Income and Expenditure			
2021/22 ORIGINAL BUDGET £000	2021/22 AMENDED BUDGET £000		2022/23 FINAL PROPOSED BUDGET £000
		Expenditure	
4,194	4,043	Supervision & Management - General	4,089
1,353	1,362	Supervision & Management - Special	1,383
3,543	3,543	Repairs & Maintenance	3,613
4,768	4,656	Capital Financing Costs	5,682
253	224	Rent, Rates, Taxes & Other Charges	237
1,271	249	Increase in Provision for Bad Debts	657
6,392	18,786	Capital Expenditure from Revenue Account (CERA)	6,438
21,774	32,863		22,099
		Income	
(20,574)	(20,598)	Dwelling Rents	(20,891)
(168)	(162)	Non Dwelling Rents	(162)
(10)	(5)	Interest	(7)
(539)	(526)	Charges For Services and Facilities	(539)
(303)	(282)	Contribution towards expenditure	(303)
(205)	(205)	Grant Income	(205)
(21,799)	(21,778)		(22,107)
(25)	11,085	(Surplus)/ deficit for the year	(8)

HOUSING REVENUE ACCOUNT			
Projected Movement on Reserve			
2021/22 ORIGINAL BUDGET £000	2021/22 AMENDED BUDGET £000		2022/23 INITIAL PROPOSED BUDGET £000
(890)	(12,000)	Balance Brought Forward as at 1st April (Surplus)/Deficit	(915)
(915)	(915)	Balance Carried Forward as at 31st March (Surplus)/Deficit	(923)