

Meeting of:	Cabinet
Date of Meeting:	Thursday, 16 November 2023
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Initial Housing Revenue Account (HRA) Budget Revised Budget 2023/24 and Proposals 2024/25
Purpose of Report:	To gain Cabinet approval for the Housing Revenue Account revised budget for 2023/24 and the initial budget proposals for 2024/25 and to take the proposals forward for consultation with Homes & Safe Communities and Corporate Performance & 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:	<p>The Corporate Management Team has been consulted on this report. The initial budget proposals do not require Ward Member consultation.</p> <p style="text-align: center;">Officers Consulted:</p> <p style="text-align: center;">Matt Bowmer - Head of Finance</p> <p style="text-align: center;">Miles Punter - Director of Environment and Housing</p> <p style="text-align: center;">Mike Ingram - Head of Housing & Building Services</p>
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 2024/25 budget will require the approval of Council.

Executive Summary:

- The report provides an update on the revised Housing Revenue Account Budget for 2023/24.
- The revised budget 2023/24 has increased from a deficit of £10.672m to £15.538m which will be funded from Housing Revenue Account reserves, this is a planned reduction as set out below.
- The Housing Revenue Account reserve level as at 31st March, 2023 was £16.486m, which was higher than expected due to lower capital expenditure being incurred in 2022/23. This drawdown will bring the Housing Revenue Account reserve balance back into line with the Housing Business plan for 31st March, 2024.
- The revised Housing Improvement Programme is included in the Q2 Capital Monitoring report also on this agenda totalling £49.912m in 2023/24.
- The report sets out initial Housing Revenue Account budget proposals for 2024/25.
- The initial budget for 2024/25 has moved from an original deficit budget £10.672m to a surplus of £75k. With total projected expenditure of £24.823m and total projected income of £24.900m.
- The 2024/25 budget has assumed a reduction in Capital Expenditure Revenue Account (CERA) of £11.312m, bringing the budget contribution to £5.875m. This will leave an anticipated balance on the Housing Revenue Account reserve of £1.026m as at March 2025.

Other significant cost increases in 2024/25 are 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 is recommended to approve the revised Housing Revenue Account budget for 2023/24 as set out in paragraph 2.2.
2. Cabinet is recommended to approve the initial Housing Revenue Account budget proposal for 2024/25 as set out in paragraph 2.11.
3. Cabinet is recommended to submit the revised 2023/24 budget and initial proposals for 2024/25 to the Homes and Safe Communities Scrutiny Committee for consideration.
4. Cabinet is recommended to request Homes and Safe Communities Scrutiny Committee to pass their comments to Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee in order for their views to be forwarded to Cabinet.
5. Cabinet is recommended to note 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 2024/25 budget proposals.
3. In order to gain the views of Scrutiny Committee regarding the revised 2023/24 and initial 2024/25 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 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 5.5%, has been included in the 2024/25 initial budget proposals, which is in line with the Housing Business Plan – February 2023. 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 2024/25 and the proposals included within it would need to be revisited.

2. Key Issues for Consideration

- 2.1** This report sets out the revised budget for 2023/24 and the initial proposals for the 2024/25 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 2023/24 Budget

- 2.2** The following table compares the original budget with the proposed amended budget for 2023/24. The revised proposals for the 2023/24 budget reflect the current projected outturn for the Housing Revenue Account.

Table One Revised 2023/24 Budget

	2023/24 Original Budget	2023/24 Proposed Budget	Variance Favourable (-) Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account (Surplus)/Deficit	10,672	15,538	4,866

- 2.3** It is proposed that the net operational budget for 2023/24 is increased from a deficit of £10.672m to a deficit of £15.538m. The operational budget's surplus or deficit will adjust the level of the Housing Revenue Account reserve. At the end of 2022/23, the level of the Housing Revenue Account reserve was £16.486m, which is a higher level than previously projected. This balance was due to lower than expected spend on the 2022/23 Capital Programme. The proposed change to the operational budget in 2023/24 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 2023/24. The Housing Business Plan 2024/25 is currently under review as set out within this report.
- 2.1** The balance on the HRA reserve brought forward as at 1st April, 2023 is £16.486m 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 £22.756m, which is an increase of £5.569m. This increases the deficit budget and therefore the drawdown on the reserve, will leave a balance on the HRA reserve at year end of £949k, which is in line with the minimum amount required as per the Business Plan. However it should be noted that due to challenges in project delivery it is unlikely that there will be total spend of £22.756m, this figure is being regularly reviewed and the projected capital expenditure for 2023/24 updated. If capital expenditure is slipped into 2023/24 then the HRA Reserve is likely to be greater than the £949k currently forecast at year end.

- 2.2** The amended funding of the Housing Improvement Programme in the 2023/24 Capital Programme is reflected in the Q2 Capital Monitoring also included on this agenda and the amended funding is set out in the Table Two below.

Table Two HRA Funding

Funding	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000	£000
CERA (reserves)	22,756	5,875	6,718	6,805	7631	8531
ICF reserve	259	0	0	0	0	0
MRA	2,770	2,770	2,770	2,770	2,770	2,770
S106	0	600	600	600	600	0
Land sale	140	0	0	0	0	0
ORP	871	871	0	0	0	0
SHG grant	1,895	2,085	1,990	2,000	2,000	0
WG grant TACP	5,998	0	0	0	0	0
S20 payments	64	0	0	0	0	0
Borrowing	15,159	32,354	23,179	11,571	9,033	13,903
Total Funding	49,912	44,555	35,257	23,746	22,034	25,204
Expenditure	49,912	40,755	35,257	23,746	22,034	25,204
Slippage		3,800				
Total Expenditure	49,912	44,555	35,257	23,746	22,034	25,204

- 2.3** In addition to the major adjustment to the 2023/24 plan for CERA there have been a number of areas of increasing costs and compensating reductions and savings the revised 2023/24 budget is detailed in paragraph 2.11 below.
- 2.4** A review of the current budget has found the following increased costs totalling £587k:
- Employee costs are anticipated to be £54k more than budgeted due to the current proposals for the pay award and other staff changes.

- Repairs costs are expected to increase by £300k due to a significant increase in supply costs.
- Premises costs are expected to increase by £204k due to an increase in utility costs, disinfestation costs and ground maintenance.
- The charges for services and facilities are expected to be £8k 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.

2.5 These costs have been offset with the following potential savings this year totalling £819k. 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 £948k to £146k saving £802k. 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 £146k which is based on forecasted rent arrears to 31st March, 2024. There is also a revenue saving due to an increase in technical salaries being recharged to capital of £17k.

- 2.6** There are also a number of small adjustments:
- A reduction in Capital Financing Costs of £131k is anticipated due to a lower level of borrowing required in accordance with slippage on the Capital Programme.
 - Other budgets that are expected to outturn with an under spend are supplies and services £16k and Transport £6k.
 - Rental income (net of VOIDS) has also increased by £318k in year.

Base Budget 2024/25

2.7 The Financial Strategy for 2024/25 as approved by Cabinet on 20th July, 2023 (Minute number C69) 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 revised 2023/24 and proposed 2024/25 budget is set out below:

Table Three Revised 2023/24 and Initial 2024/25 Budget – Projected Income & Expenditure

2023/24 Original Budget	2023/24 Revised Budget		2024/25 Initial Proposed Budget
£000	£000		£000
4,366	4,406	<u>Expenditure</u> Supervision & Management – General	4,522

1,604	1,811	Supervision & Management – Special	1,866
4,681	4,981	Repairs & Maintenance	5,000
5,327	5,196	Capital Financing Costs	6,562
221	192	Rent, Rates, Taxes & Other Charges	238
948	146	Increase in Provision for Bad Debts	760
17,187	22,756	Capital Expenditure from Revenue Account (CERA)	5,875
34,334	39,488		24,823
(22,453)	(22,773)	<u>Income</u>	
(173)	(170)	Dwelling Rents	(23,688)
(156)	(156)	Non Dwelling Rents	(173)
(601)	(591)	Interest	(156)
(74)	(55)	Charges For Services and Facilities	(601)
(205)	(205)	Contribution towards expenditure	(77)
		Grant Income	(205)
(23,662)	(23,950)		(24,900)
10,672	15,538	(Surplus)/ deficit for the year	(77)

Table Four Projected Movement on Reserve

2023/24 Original Budget	2023/24 Revised Budget		2024/25 Initial Proposed Budget
£000	£000		£000
(11,621)	(16,486)	Balance Brought Forward as at 1st April (Surplus)/Deficit	(949)
(949)	(949)	Balance Carried Forward as at 31st March (Surplus)/Deficit	(1,026)

2.10 Table Four below sets out the changes to the original 2023/24 budget to bring forward the proposed budget for 2024/25. The changes are detailed in the paragraphs below.

Table Five Summary of changes

	£000
Original Budget 2023/24	10,672
Pay/Price Inflation	231
Committed Growth/(Savings)	1,569
Dwelling & Non Dwelling Rent Increase	(1,235)
Increase / (Decrease) in CERA	(11,312)
Proposed Budget Deficit 2024/25	(77)

- 2.11** A provision for general inflation £231k includes an allowance for pay award correction of the base budget 2023/24 at £1,925 per spinal point, pay award of 4% in 2024/25 and staff changes. The remaining £100k is inflation on utilities and contract cleaning at 10% and insurance.
- 2.12** The committed growth of £1.569m is due to a number of factors;
- An increase in Capital Financing charges of £1.235m in relation to an increased level of unsupported borrowing being taken out in 2024/25 to fund the Housing Improvement Programme. This is based on an indicative borrowing figure of £32m in 2024/25 which is ambitious.
 - An increase in staff costs of £68k due to changes in staff and increments.
 - An increase in Premises costs of £155k mainly due to a need to correct the base budget for the 2023/24 increase in utility costs, disinfestation costs grounds maintenance and cesspit emptying.
 - An increase in Repair costs £319k due to an increase in services provided and supply costs.
 - A reduction in the provision for bad and doubtful debts of £188k, based on 3% instead of 4% reflecting collection rates.
 - An increase in Supplies & Services of £3k.
 - A decrease in Transport costs of £4k.
 - An increase in Technical salary recharges to capital income of £28k.
 - An increase in Central support £9k.
- 2.13** A decrease in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £11.312m has been assumed. The amount of revenue contribution required £5.875m 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 £1.026m as at 31st March, 2024, which is broadly in line with the Housing Business Plan.
- 2.14** The rental increase for 2024/25 is currently assumed at 5.5%. Rental increases are determined by the Welsh Government Rent Policy guidance which is expected to be received late November 2023. 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.
- 2.15** The Welsh Government has communicated that the maximum average increase for 2024/25 is capped at 6.7%, an increase at this level would equate to £7.65 per week. If this maximum increase was applied the additional rent income over the 5.5% increase already assumed would equate to £275k in 2024/25 but would generate additional income over the life of the business plan that would contribute towards the cost of decarbonisation of housing stock, WHQS 2023 and funding toward New Builds.

Next Steps

- 2.16** 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 13th December 2023 for consideration by Cabinet.
- 2.17** 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 4th January 2024.
- 2.18** Cabinet's final budget proposals will be considered by Council at a meeting to be arranged for mid January 2024.

Timetable

Date	Body	Activity
8 November 2023	Homes and Safe Communities Scrutiny Committee	Initial Housing Revenue Account Revised Budget 2023/24 and Proposals 2024/25
13 November 2023	Corporate Performances & Resources Scrutiny	Initial Housing Revenue Account Revised Budget 2023/24 and Proposals 2024/25
10 January 2024	Homes & Safe Communities Scrutiny	HRA Business Plan and Rent Setting
11 January 2024	Cabinet	HRA Business Plan and Rent Setting
15 January 2024	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 CO² emissions and impacts on our tenants. Several projects are included in the 2023/24 and proposed 2024/25 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 2023/24 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 – February 2023