Agenda Item No: 11

Meeting of:	**Cabinet**
Date of Meeting:	**Thursday, 19 November 2026**
Relevant Scrutiny Committee:	Place and Resources Scrutiny Committees
Item which the Chair has decided is urgent (Part I) **(If yes, why)**	Not applicable
Urgent Decision Procedure Used (15.14 of the Constitution) **(If yes, why)**	Not applicable
Item Type	Part I
Report Title:	Initial Housing Revenue Account (HRA) Budget Revised Budget 2026/27 and Proposals 2027/28
Portfolio Holder:	Executive Leader and Cabinet Member for Performance and Resources
Strategic Leadership Team:	Director of Environment and Housing
Lead Officer:	Head of Finance/S151 Officer

1.0 What is this report about?

1.1 The report provides an update on the revised Housing Revenue Account Budget for 2026/27.

1.2 The revised budget 2026/27 has moved from a surplus of £149k to a deficit £5.440m which will see a contribution from Housing Revenue Account reserves, this is a planned decrease as set out below.

1.3 The Housing Revenue Account reserve level at 31st March 2026 was £9.914m, which was higher than expected due to a reduced contribution to capital outturn in 2025/26. This transfer will bring the Housing Revenue Account reserve balance to £4.474m at 31st March 2027.

1.4 The revised Housing Improvement Programme is included in the Quarter 2 Capital Monitoring report also on this agenda totalling £26.996m in 2026/27.

1.5 The report sets out the initial Housing Revenue Account budget proposals for 2027/28.

1.6 The initial budget for 2027/28 has moved from an original surplus budget £149k to a deficit of £2.094m, with total projected expenditure of £31.610m and total projected income of £29.516m.

1.7 The 2027/28 budget has assumed an increase in Capital Expenditure Revenue Account (CERA) of £593k, bringing the budget contribution to £7.250m. This will leave an anticipated balance on the Housing Revenue Account reserve of £2.380m as at 31st March 2028.

1.8 There are a number of significant cost increases in 2027/28 in respect of capital financing due to additional borrowing undertaken as part of the Housing Business Plan, an increase in interest rates charged on borrowing and higher repair costs due to an increase in supply costs and increase in services and inspections.

1.9 In September 2025 Welsh Government published a new rent policy to come into effect from 1st April 2026. The policy caps rent increase at Consumer Price Index (CPI) plus 0.5% where September CPI is 3% to 5%. The modelling in the report is at 2.5% at present in line with the 2026/27 increase, but this won't support a sustainable HRA with pressures on WHQS, decarbonisation and further development. The proposals in January are likely to put forward a 4% increase given September CPI was 3.5%.

2.0 What are the Recommendations?

	Recommendations – What and How?	**Reason for Recommendation – Why?**
2.1	Cabinet is recommended to approve the revised Housing Revenue Account budget for 2026/27 as set out in the report.	To facilitate monitoring of the amended Housing Revenue Account Budget.
2.2	Cabinet is recommended to approve the initial Housing Revenue Account budget proposal for 2027/28 as set out in paragraph 4.2.	To gain approval for the initial 2027/28 budget proposals.
2.3	Cabinet is recommended to submit the revised 2026/27 budget and initial proposals for 2027/28 to the Place and Resources Scrutiny Committee for consideration, with any recommendations to be referred to Cabinet for final consideration.	In order that Cabinet be informed of the recommendations of Scrutiny Committee regarding the revised 2026/27 and initial 2027/28 Housing Revenue Account Budget proposals before making a final proposal on the budget.
2.4	Cabinet is recommended to note the increase for rent and other services are subject to a future report to Cabinet with a period of Contract Holder consultation informing future decisions.	In order to meet the deadline to notify Contract Holders of the new charges as required by Statute.

3.0 What is the background to this report?

3.1 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.

3.2 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.

3.3 Each Local Authority should endeavour to have a working balance on the HRA, for any exceptional circumstances that may arise.

3.4 In the summer of 2025, Welsh Government carried out extensive consultation regarding the Rent Standard to identify where the policy could be improved or strengthened. There was a focus on ensuring the social rents policy reflects the Welsh Government commitment to affordability, certainty and stability. However, at the same time there was a recognition that due regard needed to be given to the importance of maintaining a viable and sustainable level of income for social landlords, so that they can continue to provide services, invest in repairs and maintenance, and deliver the new social homes Wales so desperately needs.

3.5 A new rent policy was issued by Welsh Government on 29th September 2025 which covers 6th April 2025 to 31st March 2036. Currently the modelling has been working to an average rent increase of 2.5%, but with CPI static over the past three months at 3.5% a 1% increase for 2027/28 wouldn't cover all of the financial demands on the HRA at this time.

3.6 The budget is under greater pressure because of high costs of borrowing due to higher interest rates at this time. Any significantly lower than expected rent increase will impact the viability of the Housing Business Plan 2027/28, the proposals included are under continued review.

4.0 What issues are there to be considered?

4.1 This report sets out the revised budget for 2026/27 and the initial proposals for the 2027/28 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 2026/27 Budget

4.2 The following table compares the original budget with the proposed amended budget for 2026/27. The revised proposals for the 2026/27 budget reflect the current projected outturn for the Housing Revenue Account.

Table One - Revised 2026/27 Budget

	2026/27 Original Budget	2026/27 Proposed Budget	Variance Favourable (-) Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account (Surplus)/Deficit	(149)	5,440	5,589

4.3 It is proposed that the net operational budget for 2026/27 is increased from a surplus of £149k to a deficit of £5.440m. The operational budget's surplus or deficit will adjust the level of the Housing Revenue Account reserve. At the end of 2025/26, the level of the Housing Revenue Account reserve was £9.914m, which is at a higher level than previously projected. This balance was due to a lower contribution to capital than expected. The proposed change to the operational budget in 2026/27 will result in a decrease in the balance of this reserve to hold two months' rent. The Housing Business Plan 2027/28 is currently under review as set out within this report.

4.4 The balance on the HRA reserve brought forward as at 1st April 2026 is £9.914m 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 £12.504m, which is an increase of £5.847m. Therefore, the transfer from the reserve will leave a balance on the HRA reserve at year end of £4.474m. The Housing Business plan working balance will be reviewed and amended to reflect a holding balance of two months' worth of rent.

4.5 The amended funding of the Housing Improvement Programme in the 2026/27 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

Funding	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
CERA (reserves)	12,504		2,866	532	1,239
Internal Reserves	0	0	0	0	0
MRA	2,770	2,770	2,770	2,770	2,770
Grants	3,081	4,800	4,800	4,800	4,800
S106	600	1,300	0	0	0
Land sale/CR	0	452	1,307	452	452
S20 Payments	401	0	0	0	0
Borrowing	7,640	57,348	67,477	48,053	39,416
Total Funding	**26,996**	**73,920**	**79,220**	**56,607**	**48,677**

Expenditure	26,996	73,920	79,220	45,351	37,421
Slippage				11,256	11,256
Total Expenditure	**26,996**	**73,920**	**79,220**	**56,607**	**48,677**

4.6 In addition to the major adjustment to the 2026/27 plan for CERA there have been a number of areas of increasing costs and compensating reductions and savings in the revised 2026/27 budget is detailed in paragraph 4.7 below.

4.7 A review of the current budget has found the following increased costs totalling £5.589m:

- Premises costs are anticipated to be £281k more than budgeted.
- Repairs costs are expected to increase by £1m due to a significant increase in supply costs, increase in repairs and inspections and void costs.
- 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 £154k mainly due to consultant fees and payment of legal costs.
- The charges for services and facilities are expected to be £35k less than budgeted.
- These costs have been offset with the following potential reduced pressures and savings this year totalling £1.170m. The main factor is that the budget relating to the increase in the provision for bad and doubtful debts has been reduced from £720k to £121k saving £599k. The original provision was based on 3% of the total dwelling and service charge income and the revised figure for the increase in provision is now £121k which is based on forecasted rent arrears to 31st March 2027. There is also a revenue saving due to a delay in the development restructure of £383k, reduction in transport costs of £9k, increase in investment income £129k, reduction of central recharges £24k, write offs decreased by £23k, other income increased by £12k and net rent income decreased by £9k.

4.8 There are also a number of large adjustments:

- A reduction in Capital Financing Costs of £1.636m is anticipated due to a lower level of borrowing required in line with the Capital Programme.
- CERA increased by £5.847m
- A reduction in technical salaries being recharged to capital of £1.057m.

Base Budget 2027/28

4.9 The Financial Strategy for 2027/28 as approved by Cabinet on 23rd July 2026 (Minute number C49) 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.

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

4.11 The revised 2026/27 and proposed 2027/28 budget is set out below:

Table Three - Revised 2026/27 and Initial 2027/28 Budget – Projected Income and Expenditure

2026/27 Original Budget	2026/27 Revised Budget		2027/28 Initial Proposed Budget
£000	£000		£000
		Expenditure	
4,819	5,516	Supervision & Management – General	5,599
1,875	2,121	Supervision & Management – Special	2,167
6,725	7,725	Repairs & Maintenance	7,725
7,626	5,990	Capital Financing Costs	7,827
269	276	Rent, Rates, Taxes & Other Charges	318
720	121	Increase in Provision for Bad Debts	724
6,657	12,504	Capital Expenditure from Revenue Account (CERA)	7,250
28,691	**34,353**		**31,610**
		Income	
(26,350)	(27,367)	Dwelling Rents	(28,033)
(205)	(178)	Non Dwelling Rents	(239)
(222)	(351)	Interest	(177)
(763)	(728)	Charges For Services and Facilities	(764)
(95)	(84)	Contribution towards expenditure	(98)
(205)	(205)	Grant Income	(205)
(28,840)	**(28,913)**		**(29,516)**
(149)	**5,440**	**(Surplus)/ deficit for the year**	**2,094**

Table Four - Projected Movement on Reserve

2026/27 Original Budget	2026/27 Revised Budget		2027/28 Initial Proposed Budget
£000	£000		£000

(4,325)	(9,914)	Balance Brought Forward as at 1st April (Surplus)/Deficit	(4,474)
(4,474)	(4,474)	Balance Carried Forward as at 31st March (Surplus)/Deficit	(2,380)

4.12 Table Five below sets out the changes to the original 2026/27 budget to bring forward the proposed budget for 2027/28. The changes are detailed in the paragraphs below.

Table Five - Summary of changes

	£000
Original Budget 2026/27	(149)
Pay/Price Inflation	136
Committed Growth/(Savings)	2,169
Dwelling & Non Dwelling Rent Increase	(655)
Increase/(Decrease) in CERA	593
Proposed Budget Deficit 2027/28	2,094

4.13 A provision for general inflation £136k includes an allowance for pay award of 3% in 2027/28 and staff changes.

4.14 The committed growth of £2.169m is due to a number of factors:

- An increase in Capital Financing charges of £201k in relation to an increased level of unsupported borrowing being taken out in 2027/28 to fund the Housing Improvement Programme. This is based on an indicative borrowing figure of £7.640m in 2026/27.
- A decrease in staff costs of £52k due to changes in staff structure.
- An increase in Premises costs of £291k due to utilities at temporary accommodations.
- An increase in Repair costs £1m due to an increase in services provided, supply and void costs.
- An increase in the provision for bad and doubtful debts of £4k, based on 2.5%.
- An increase in Supplies and Services of £103k.
- A decrease in Technical salary recharges to capital income of £688k.
- A decrease in investment income of £45k based on s 4.8% return.
- An increase in charges for services & facilities of £1k.
- A decrease in central support of £35k.
- A decrease in transport of £9k.
- An increase in Garage income £67k.

4.15 An increase in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £593km has been assumed. The amount of revenue contribution required £7.250m 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 £2.380m as at 31st March 2028, which is broadly two months' rent.

4.16 The rental increase for 2027/28 is currently assumed at 2.5%. Rental increases are determined by the Welsh Government Rent Policy guidance which is expected to be received November 2026. The Rented Homes Wales Act came into effect 1st December 2022 which requires the Local Authority to give Contract Holders two months' notice instead of the previous 28 days of any increase in rents and service charges.

4.17 The current rent policy states the maximum rental uplift was CPI plus 0.5% as at the previous September. CPI at September 2026 was 3.5% so it was anticipated that the maximum increase would be 4%. The Rent Settlement Letter from Welsh Government was received on 24th October 2026, a little earlier than in recent years, and confirms the approach of a maximum of a 4% increase.

4.18 The Housing Business Plan 2027/28 is under review and has been modelling a 2.5% increase in dwelling rents for 2027/28. The rental increase in the Business Plan 2027/28 which goes forward to Full Council in January 2027 will naturally be higher than the 2.5% modelled with 4% being the maximum so there is further modelling to be carried out. Given the pressures on the quality standards, decarbonisation and development of the housing stock it is difficult to envisage a sustainably viable HRA Business Plan without a rental increase at 4%.

Next Steps

4.19 The next stage is for the estimates to be submitted to Scrutiny Committee for information as background to the HRA Business Plan and Rent Setting report coming forward early in the new year. 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 2027/28 Business Plan in January 2027.

4.20 A further round of Contract Holder consultation will be carried out on the proposed rents, prior to the end of the year. This will build on the previous consultation which took place in April 2025, via the Survey of Tenants and Residents (STAR). 1,223 Contract Holders responded to this survey about a range of housing services, including rents and service charges. 76% of respondents were either satisfied or very satisfied with their 'rent as value for money'. This was up slightly from the previous survey results and level with the Local Authority benchmark across the country. The next consultation will include a meeting with the Contract Holder working group (who are the umbrella group of all Contract Holder groups operating across the Vale) and a smaller scale survey to gain feedback and develop further understanding of Contract Holders' views.

4.21 An affordability assessment will also be undertaken of the proposed rents using the Housemark Affordability tool, this provides an assessment of affordability for different property sizes and types, taking into account benefit and income levels as well as other costs. The tool also provides comparisons between the private rent levels in the Vale, the Local Housing Allowance and rents of other social landlords.

4.22 Work will now commence on finalising the 2027/28 Business Plan and Rent Setting proposals. Cabinet's final budget proposals will be considered by Full Council at a meeting to be arranged for 11th January 2027.

Timetable

Date	Body	Activity
30th November 2026	Place and Resource Scrutiny Committee	Recommendations on the Initial Housing Revenue Account Revised Budget 2026/27 and Proposals 2027/28 to be conveyed to Cabinet for consideration.
5th January 2027	Place Scrutiny	HRA Business Plan and Rent Setting
7th January 2027	Cabinet	HRA Business Plan and Rent Setting
11th January 2027	Council	HRA Business Plan and Rent Setting

5.0 How has evidence been used to inform the report, including the views of others?

5.1 This report has been prepared based on the current 2026/27 budget estimate including growth and inflation.

5.2 The current Housing Business plan 2026/27 has been used to project to Housing revenue account Reserves, CERA and projected capital financing requirements for 2027/28.

5.3 Contract Holders STAR survey April 2025 has been used for Contract Holder views and satisfaction. The next STAR survey is due to be completed in April 2027.

6.0 What are the next steps if the recommendations are approved?

6.1 The revised estimates 2026/27 will be used to facilitate monitoring in the current year.

6.2 Work will continue on the initial estimates 2027/28 to include the proposed rent and service charge setting for next year once the rent notification has been received.

6.3 Consider any recommendations received from Place Scrutiny Committee.

6.4 Consider any recommendations received from Resources Scrutiny Committee.

6.5 Prepare final estimates 2027/28 which will include actual rent and service charge increases.

7.0 How does this report support Vale 2030 and Reshaping?

7.1 The Housing Revenue Account (HRA) Business Plan plays an important role in delivering the ambitions of the Vale 2030 Corporate Plan by investing in high-quality, affordable homes and supporting the creation of safe, sustainable and resilient communities. Through planned maintenance, compliance programmes, energy efficiency improvements and

environmental enhancements, the Council is ensuring its housing stock continues to meet the needs of current and future Contract Holders.

7.2 The HRA also supports the Council's commitment to reducing inequality and tackling poverty by maintaining affordable council housing, improving the quality and energy efficiency of homes, and increasing the supply of affordable housing through its development programme. These investments help improve health and wellbeing outcomes, reduce fuel poverty and support residents to live independently within their communities.

7.3 In addition, the HRA aligns with the Council's Reshaping Programme by promoting long-term financial sustainability, efficient asset management and service transformation. Investment in digital services, modern housing management systems and data-driven decision making helps improve customer experience, increase operational efficiency and ensure that limited resources are targeted effectively, enabling the Council to deliver sustainable housing services for the future.

8.0 How does this demonstrate the Five Ways of Working?

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

8.2 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 Department for Work and Pensions.

8.3 Involving the population in decisions - The Housing Service continues to consult regularly with its Contract Holders both through formal consultation exercises and through the Tenants Panel.

8.4 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.

8.5 Understanding the root causes of issues and preventing them - Feedback from Contract Holders is used to inform and improve service delivery and Contract Holders 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.

Resources

9.0 Finance

9.1 The financial considerations are set out in the body of the report.

10.0 Workforce

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

11.0 Legal and Equalities

11.1 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 Contract Holders 2 months in advance of the new changes coming into effect.

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

12.0 Key Contacts

12.1 Who are the primary officers to contact with any comments and/or queries on the report?

Lead Officers (Joint Report):	Democratic Services Officer:
Mike Ingram Head of Housing Matt Bowmer Head of Finance/section 151 Officer	Matt Swindell Cabinet and Committee Services Officer. mlswindell@valeofglamorgan.gov.uk