

Meeting of:	<b>Cabinet</b>
Date of Meeting:	<b>Thursday, 20 November 2025</b>
Relevant Scrutiny Committee:	Place and Resources <b>Scrutiny Committee</b>
Report Title:	Initial Housing Revenue Account (HRA) Budget Revised Budget 2025/26 and Proposals 2026/27
Purpose of Report:	To gain Cabinet approval for the Housing Revenue Account revised budget for 2025/26 and the initial budget proposals for 2026/27 and to take the proposals forward for consultation with Place 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: Head of Finance/s151 Officer Director of Environment and Housing 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 Full Council at the proposal stage. However, the final 2026/27 budget will require the approval of Full Council.

Executive Summary:

- The report provides an update on the revised Housing Revenue Account Budget for 2025/26.
- The revised budget 2025/26 has increased from a surplus of £41k to £440k which will see a contribution into Housing Revenue Account reserves, this is a planned increase as set out below.
- The Housing Revenue Account reserve level as at 31st March 2025 was £3.885m, which was lower than expected due to a higher contribution to capital outturn in 2024/25. This transfer will bring the Housing Revenue Account reserve balance to £4.325m as at 31st March 2026.
- The revised Housing Improvement Programme is included in the Quarter 2 Capital Monitoring report also on this agenda totalling £26.346m in 2025/26.
- The report sets out initial Housing Revenue Account budget proposals for 2026/27.
- The initial budget for 2026/27 has moved from an original surplus budget £41k to a surplus of £149k. With total projected expenditure of £28.277m and total projected income of £28.426m.
- The 2026/27 budget has assumed a reduction in Capital Expenditure Revenue Account (CERA) of £685k, bringing the budget contribution to £6.294m. This will leave an anticipated balance on the Housing Revenue Account reserve of £4.474m as at March 2027.
- There are a number of significant cost increases in 2026/27 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.
- 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 Prices Index (CPI) plus 0.5% where September CPI is 3% to 5%. The modelling in the report is at 2.7% at present in line with the 2025/26 increase but this will not support a sustainable HRA with pressures on Welsh Housing Quality Standard, decarbonisation and further development. The proposals in January are likely to put forward a 4.3% increase given September CPI was 3.8%.

## **Recommendations**

1. Cabinet is recommended to approve the revised Housing Revenue Account budget for 2025/26 as set out in paragraph 2.2.
2. Cabinet is recommended to approve the initial Housing Revenue Account budget proposal for 2026/27 as set out in paragraph 2.12.
3. Cabinet is recommended to submit the revised 2025/26 budget and initial proposals for 2026/27 to the Place Scrutiny Committee for consideration.
4. Cabinet is recommended to refer this report to Members of the Place and Resources Scrutiny Committees via the Scrutiny 'For Information Reporting' mechanism requesting that any comments or enquiries from Members be submitted to the Head of Finance/Section 151 Officer and the Head of Housing.
5. Cabinet is recommended to note the increase for rent and other services are subject to a future report to Cabinet and approve consultation with tenants to proceed.

## **Reasons for Recommendations**

1. To facilitate monitoring of the amended Housing Revenue Account Budget.
2. To gain approval for the initial 2026/27 budget proposals.
3. In order to gain the views of Scrutiny Committee regarding the revised 2025/26 and initial 2026/27 Housing Revenue Account Budget proposals.
4. In order that the final iteration of the report can be updated to reflect the comments and observations of both Scrutiny Committees, ensuring that Member feedback is fully considered before final decisions on budget proposals are taken at future meetings of Cabinet and Full Council. This approach also supports transparency and continuous engagement by providing all Members with access to the report through the Scrutiny – For Information process and inviting any further comments to be submitted to the relevant officers for consideration in the final budget process.
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** 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.
- 1.5** A new rent policy was issued by Welsh Government on 29th September 2025 which covers 6th April 2026 to 31st March 2036. Currently the modelling has been working to an average rent increase of 2.7%, but with CPI static over the past three months at 3.8% a 2.7% increase for 2026/27 would not cover all of the financial demands on the HRA at this time.
- 1.6** 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 2026/27, the proposals included are under continued review.

## 2. Key Issues for Consideration

- 2.1** This report sets out the revised budget for 2025/26 and the initial proposals for the 2026/27 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 2025/26 Budget

- 2.2** The following table compares the original budget with the proposed amended budget for 2025/26. The revised proposals for the 2025/26 budget reflect the current projected outturn for the Housing Revenue Account.

Table One - Revised 2025/26 Budget

	2025/26 Original Budget	2025/26 Proposed Budget	Variance Favourable (-) Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account (Surplus)/Deficit	(41)	(440)	(399)

- 2.3** It is proposed that the net operational budget for 2025/26 is increased from a surplus of £41k to a surplus of £440k. 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 £3.885m, which is at a lower level than previously projected. This balance was due to a higher contribution to capital than expected. The proposed change to the operational budget in 2025/26 will result in an increase in the balance of this reserve to hold two months' rent. The Housing Business Plan 2026/27 is currently under review as set out within this report.

**2.4** The balance on the HRA reserve brought forward as at 1st April 2025 is £3.885m and is currently lower 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 £7.782m, which is an increase of £803k. Therefore, the transfer to the reserve will leave a balance on the HRA reserve at year end of £4.325m. 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 2025/26 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>2025/26 £'000</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>	<b>2029/30 £'000</b>	<b>2030/31 £'000</b>
CERA (reserves)	7,786	6,541	7516	3,355	1,795	2,027
Internal Reserves	£43	£0	£0	£0	£0	£0
MRA	2,770	2,770	2,770	2,770	2,770	2,770
Grants	3,050	2,800	2,800	2,800	2,800	2,800
S106	753	1,828	500	500	500	500
Land sale/CR	0	0	0	0	0	
Borrowing	11,944	32,885	48,209	39,778	43,686	36,634
<b>Total Funding</b>	<b>26,346</b>	<b>46,824</b>	<b>61,795</b>	<b>49,203</b>	<b>£51,551</b>	<b>44,731</b>
Expenditure	26,346	40,774	61,795	49,203	51,551	44,731
Slippage		6,050				
<b>Total Expenditure</b>	<b>26,346</b>	<b>46,824</b>	<b>61,795</b>	<b>49,203</b>	<b>51,551</b>	<b>44,731</b>

**2.6** In addition to the major adjustment to the 2025/26 plan for CERA there have been a number of areas of increasing costs and compensating reductions and savings the revised 2025/26 budget is detailed in paragraph 2.7 below.

**2.7** A review of the current budget has found the following increased costs totalling £828k:

- Employee costs are anticipated to be £15k more than budgeted due to staff changes.
- Repairs costs are expected to increase by £650k 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 £108k due to consultant fees.
- A decrease in investment income of £16k.
- An increase in central support of £11k
- The charges for services and facilities are expected to be £7k less than budgeted.
- These costs have been offset with the following potential savings this year totalling £511k. 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 £691k to £309k saving £382k. 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 £309k which is based on forecasted rent arrears to 31st March 2026. There is also a revenue saving due to an increase in technical salaries being recharged to capital of £30k and reduction in premises costs regards utilities of £99k.

**2.8** There are also a number of large adjustments:

- A reduction in Capital Financing Costs of £1.077m is anticipated due to a lower level of borrowing required in line with the Capital Programme.
- Rental income (net of voids) has also increased by £422k in year mainly due to numerous new build schemes coming onto stock and in year property acquisitions.

**2.9 Base Budget 2026/27**

**2.10** The Financial Strategy for 2026/27 as approved by Cabinet on 17th July 2025 (Minute number C54) 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 2025/26 and proposed 2026/27 budget is set out below:

Table Three - Revised 2025/26 and Initial 2026/27 Budget – Projected Income and Expenditure

2025/26 Original Budget	2025/26 Revised Budget		2026/27 Initial Proposed Budget
£000	£000		£000
		<u>Expenditure</u>	
4,909	5,022	Supervision & Management – General	4,858
1,962	1,864	Supervision & Management – Special	1,890
5,920	6,570	Repairs & Maintenance	6,800
6,889	5,812	Capital Financing Costs	7,414
298	268	Rent, Rates, Taxes & Other Charges	312
691	309	Increase in Provision for Bad Debts	709

6,979	7,782	Capital Expenditure from Revenue Account (CERA)	6,294
27,648	27,627		28,277
(26,158)	(26,593)	<u>Income</u>	
(199)	(186)	Dwelling Rents	(26,885)
(215)	(199)	Non Dwelling Rents	(197)
(817)	(810)	Interest	(222)
(95)	(74)	Charges For Services and Facilities	(822)
(205)	(205)	Contribution towards expenditure	(95)
		Grant Income	(205)
(27,689)	(28,067)		(28,426)
(41)	(440)	(Surplus)/ deficit for the year	(149)

Table Four - Projected Movement on Reserve

2025/26 Original Budget	2025/26 Revised Budget		2026/27 Initial Proposed Budget
£000	£000		£000
(3,885)	(3,885)	Balance Brought Forward as at 1st April (Surplus)/Deficit	(4,325)
(3,926)	(4,325)	Balance Carried Forward as at 31st March (Surplus)/Deficit	(4,474)

**2.13** Table Five below sets out the changes to the original 2025/26 budget to bring forward the proposed budget for 2026/27. The changes are detailed in the paragraphs below.

Table Five - Summary of changes

	£000
Original Budget 2025/26	(41)
Pay/Price Inflation	135
Committed Growth/(Savings)	1,167
Dwelling & Non Dwelling Rent Increase	(725)
Increase/(Decrease) in CERA	(685)
Proposed Budget Surplus 2026/27	(149)

**2.14** A provision for general inflation £135k includes an allowance for pay award of 3% in 2026/27 and staff changes.

**2.15** The committed growth of £1.167m is due to a number of factors:

- An increase in Capital Financing charges of £525k in relation to an increased level of unsupported borrowing being taken out in 2026/27 to fund the Housing Improvement Programme. This is based on an indicative borrowing figure of £11.944m in 2025/26.
- An increase in staff costs of £471k due to changes in staff structure in the development team which will mainly be funded by transfer of technical salaries to capital.
- A decrease in Premises costs of £113k due to utility being overstated.
- An increase in Repair costs £880k due to an increase in services provided, supply and void costs.
- An increase in the provision for bad and doubtful debts of £18k, based on 2.5%.
- An increase in Supplies and Services of £26k.
- An increase in technical salary recharges to capital income of £641k.
- An increase in investment income of £7k based on a 4.8% return.
- An increase in charges for services and facilities of £5k
- Increase in central support of £11k.
- Small increase in transport of £2k

**2.16** A decrease in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £6.294m has been assumed. The amount of revenue contribution required £6.294m 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 £4.474m as at 31st March 2027, which is broadly two months' rent.

**2.17** The rental increase for 2026/27 is currently assumed at 2.7%. Rental increases are determined by the Welsh Government Rent Policy guidance which is expected to be received November 2025. 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** New policy update - 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 2025 was 3.8% so it was anticipated that the maximum increase would be 4.3%. The Rent Settlement Letter from Welsh Government was received on 24th October 2025, a little earlier than in recent years, and confirms the approach of a maximum of a 4.3% increase.

**2.19** The Housing Business Plan 2026/27 is under review and has been modelling a 2.7% increase in dwelling rents for 2026/27. The rental increase in the Business Plan 2026/27 which goes forward to Full Council in January 2026 will naturally be higher than the 2.7% modelled with 4.3% 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 4.3%.

## Next Steps

- 2.20** The next stage is for the estimates to be submitted to scrutiny committees for information as background to the HRA Business Plan and Rent Setting report coming forward early in the new year. The responses of Scrutiny Committees must be made in good time to enable Cabinet to take them into account when considering the 2026/27 Business Plan in January 2026.
- 2.21** A further round of tenant 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 tenants 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 tenant working group (who are the umbrella group of all tenant groups operating across the Vale of Glamorgan), a focus group of tenants and a smaller scale survey to gain feedback and develop further understanding of tenants' views.
- 2.22** 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 of Glamorgan, the Local Housing Allowance and rents of other social landlords.
- 2.23** Work will now commence on finalising the 2026/27 Business Plan and Rent Setting proposals. Cabinet's final budget proposals will be considered by Full Council at a special meeting to be arranged for 12th January 2026.

### Timetable

Date	Body	Activity
December 2025 <i>Date to be confirmed</i>	Place and Resources Scrutiny Member Consultation	Initial Housing Revenue Account Revised Budget 2025/26 and Proposals 2026/27 via the Scrutiny For Information Reporting mechanism.
6th January 2026	Place Scrutiny	HRA Business Plan and Rent Setting
8th January 2026	Cabinet	HRA Business Plan and Rent Setting
12th January 2026	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 2025/26 and proposed 2026/27 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 2025/26 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 2025.