



COUNTY COUNCIL

Date of Meeting	23 rd January 2024
Report Subject	Housing Revenue Account (HRA) 30 Year Financial Business Plan
Cabinet Member	Cabinet Member for Housing and Regeneration
Report Author	Chief Officer, Housing and Communities
Type of Report	Strategic

EXECUTIVE SUMMARY

The purpose of this report is to present for consideration the draft Housing Revenue Account (HRA) 30-year Financial Business Plan and the proposed HRA Budget for 2024/25.

RECOMMENDATIONS

1	Council approve the HRA 30-year Financial Business Plan and budget for 2024/25 as set out in this report and attached appendices.
2	Council agree that consideration should be given, in year, to utilise available reserves to top up the tenant hardship fund to a cap of £0.350m if required.

REPORT DETAILS

1.00	EXPLAINING THE HRA BUSINESS PLAN 2024/25 UPDATE														
1.01	<p>Considerations</p> <p>The HRA is required to produce a 30-year business plan.</p> <p>The strategic context for this year's HRA budget setting includes the following:</p> <ul style="list-style-type: none">• Ensure affordability for contract holders is at the core of our considerations.• Continued drive to ensure all service costs are efficient and that value for money can be achieved.• Ensure the treasury management strategy continues to meet the Housing Revenue Account's new and ongoing borrowing requirements.• Setting a balanced budget with a minimum of 3% surplus revenue over expenditure• Maximisation of revenue efficiencies to minimise the borrowing required to meet Welsh Housing Quality Standards (WHQS)• Delivery of new build Council housing• Continued drive to ensure homes are Energy Efficient and explore Decarbonisation.• Provision of adequate ongoing capital to maintain WHQS levels.														
1.02	<p>HRA Funding</p> <p>The HRA is a ring-fenced service and therefore it must be self-financing and not subsidised by the Council.</p> <div data-bbox="371 1335 1286 2022"><p style="text-align: center;">HRA Funding 2023/24</p><table border="1"><thead><tr><th>Category</th><th>Percentage</th></tr></thead><tbody><tr><td>Net Rental Income</td><td>68%</td></tr><tr><td>Borrowing</td><td>17%</td></tr><tr><td>Grants</td><td>12%</td></tr><tr><td>Other income</td><td>1%</td></tr><tr><td>Non Dwelling Rents</td><td>1%</td></tr><tr><td>Charges for Services</td><td>1%</td></tr></tbody></table></div> <p>The graph above indicates that the majority of the HRA income (68%)</p>	Category	Percentage	Net Rental Income	68%	Borrowing	17%	Grants	12%	Other income	1%	Non Dwelling Rents	1%	Charges for Services	1%
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	<p>comes from the rents charged to its customers and a further 29% of its funding comes from grants, in the form of the Major Repairs Allowance (MRA), Social Housing Grant (SHG), and borrowing. The remaining 3% comes from other sources such as non-dwelling rents and service charges.</p>
1.03	<p>HRA Pressures and Efficiencies</p> <p>Pressures and efficiencies have been identified and are detailed in appendix A. These also include several risks that we have not included in the business plan but may still materialise at a later point.</p> <p>An additional budget requirement of £1.254m has been identified for 2024/25. Of this, £0.910m relates to uncontrollable pressures such as pay and general inflationary increases and the remaining £0.344m are service pressures.</p> <p>A new pressure of £0.034m has been added since the last report for an additional charge for manager support in the rents team, however, this has been offset by a reduction in the bad debt provision of £0.110m</p> <p>We have also identified £0.301m of efficiencies to offset the pressures, which leaves a net pressure of £0.953m in 2024/25.</p>
1.04	<p>Capital Programme</p> <p>The total proposed capital programme for 2024/25 is £29.498m, summarised in Appendix B.</p> <p>Revised WHQS</p> <p>Welsh Government have just this week released the revised standard for WHQS.2, acknowledging the changes to how people live, work, and feel about their homes. The programme of works to deliver the new standard will run until 2033.</p> <p>WHQS.2 proposes to reduce the carbon emissions from social housing and in doing so contribute to the Welsh target of Net Zero Carbon. The standard sets out how this can be achieved by balancing the performance of homes with a high carbon footprint, against more efficient homes, this approach is proposed because not all homes will be able to reach the required carbon standards.</p> <p>The new standard will place significant additional capital pressures on the HRA over the next ten years particularly due to the net zero carbon agenda and these additional pressures are not yet reflected in the future business plan.</p> <p>The 2024/25 capital budget increases the energy efficiency programme of works to £4.562m as part of a 2-year programme to assess the best way to achieve net carbon zero homes.</p> <p>Welsh Government have also made grant available for the two years to support this programme of work (Optimised Retrofit Programme - ORP),</p>

which allows Local Authorities to trial how they can achieve net carbon zero homes. Flintshire have utilised this funding in 2023/24 and have assumed an additional £1.6m of ORP funding for 2024/25.

Disabled Facilities Grants (DFGs)

A total of £1.100m has been allocated for this mandatory service. This service is customer driven and can be volatile dependant on customer demands.

Regeneration

A £4.000m regeneration budget has been allocated in the Capital Programme for 2024/25. The aim is to utilise this allocation to remodel HRA stock where the current stock is no longer fit for purpose. There are several pipeline schemes for consideration including:

- Sheltered Housing Review
- Estate Remodelling

This allocation will also be utilised towards the acquisition of properties to help reduce homelessness, options of which are currently being explored by the Council. A total of 10 property acquisitions have been assumed in the business plan to support this strategy.

SHARP

£4.153m has been built into 2024/25 for the development of council housing. The capital programme is currently forecasting the addition of 40 units per annum for the next 5 years, based on the Standard Viability Model and assumes receipt of Social Housing Grant (SHG).

Capitalisation of the costs of the development team have now been included in the programme at 6% of the total development budget.

All schemes are required to meet financial hurdle rates set by the Council and should be able to pay back the original investment via rents within 50 years.

Asset Investment Budget Breakdown	£m
Schemes agreed in 24/25 report	4.153
Total	4.153

Capital Funding

The £29.498m capital programme will be funded by:

WHQS & Asset Investment Funding	£m
Revenue Contribution (CERA)	14.467
Major Repairs Allowance	4.978
Energy Efficiency income (FIT) & ORP Grant	1.900
Prudential Borrowing (Regeneration)	4.000
Total	25.345

SHARP Funding	£m
Prudential Borrowing	4.153
Total	4.153

1.05

Rent Setting

In December 2019, Welsh Government released the revised rent policy for a 5-year period beginning in April 2020/21.

The policy is designed to ensure that affordability for contract holders is at the core of our considerations and when setting the rent uplift, landlords should consider value for money and the whole cost of living in a property as part of their rationale for setting rents.

The Rent Policy for Social Housing Rents from 2020/21 sets out the following:

- An annual rent uplift of up to CPI+1%, for 5 years to 2024/25 using the level of CPI from the previous September each year.
- The level of rents for individual contract holders can be frozen or rise by up to an additional £2 over and above CPI+1%, on condition that total rental income collected by the social landlord increases by no more than CPI+1%.

The policy states, however, that should CPI fall outside the range of 0% to 3%, the Minister with responsibility for housing will determine the appropriate change to rent levels to be applied for that year only. CPI as of September 2023 was 6.7% and Welsh Government announced last month a rent cap for social housing of 6.7%.

Due to the impending start of WHQS.2 and therefore an increased capital requirement, we have identified during our modelling, that it is necessary to increase the Councils rents by a minimum of 6.5% to effectively balance the budget in 2024/25.

If we were unable to increase rents by the required amounts the impact would be as follows:

Rent assumption	inflation	Year 1 rent loss (based on 6.5%)	30-year rent loss (based on 6.5%)
6.5%		-	-
4.0%		£1.028m	£41.989m
2.0%		£1.850m	£75.673m
Rent freeze		£2.672m	£109.358m

Setting rent lower than 6.5% will mean the HRA will need to find further efficiencies of circa £0.400m every year for each 1% rent reduction.

In 2023/24 the Council agreed to uplift rents at 5%, which was the lower than permitted rate, to support contract holders during the recovery from the

pandemic. When compared to the 6.5% inflationary uplift allowable under the rent policy for 2023/24, the HRA lost potential additional rental income of £0.571m in year one and £23.242m over 30 years.

The table reflects how much potential income can be lost through setting rents lower than WG guidelines and highlights the importance of balancing affordability alongside the key investment required in HRA services and our housing stock.

Whilst affordability for contract holders should always be an important consideration when setting rents, it is also important to note, setting the rents at WG rent cap levels will enable the Council to utilise these additional funds on WHQS.2 which will reduce social housing utilities costs and improve affordability for contract holders.

1.06 Rent Impact on Contract Holders

We have identified that 68% of all contract holders are eligible for Housing Benefit (HB) or Universal Credit (UC) support toward their rent and service charges. The table below shows the impact on those in receipt of HB.

HB eligibility	Average % of rent paid by HB	Average impact on tenants p.w.
Full	100%	£0.00
Partial	34%	£4.80
None	0%	£7.28

Consultation with contract holders via a survey sent out with the rent statements has taken place together with a meeting with the tenant's federation.

Unfortunately, the response rate on the survey was not as high as we had hoped (1.76%) and we will need to do further work to achieve a higher response rate next year.

Most respondents, however, were self-payers and said they felt their rent was neither affordable nor unaffordable at the moment but were concerned to some degree about an increase in rent. However, they also placed high importance on improvements to their homes.

As part of the 2023/24 budget, the HRA set aside a £0.250m discretionary fund to assist contract holders who face financial hardship and who engage with us as their landlord. This funding has been maintained for 2024/25 in the business plan. Following consultation at Scrutiny committee we are further proposing that available reserves should be used to top up the reserve in year if required.

1.07 Garage Rents and Service Charges (including impact to contract holders)

The proposed garage rent, and garage plot increase is 6.5% for 2024/25, which equates to £0.70 per week for garage rent and takes the rent per week to £11.44 (based on 53 weeks). The proposed garage plot increase is

£0.05 per week taking the garage plot rent to £1.80 per week.

The business plan anticipates income levels of £0.319m for garages and garage plots.

The rent and service charges policy were introduced in 2015 and expected all Local Housing Associations (LHA's) to be achieving full cost recovery for service charges, if this had not yet been achieved a clear transition plan should be identified to achieve this.

To achieve full cost recovery, we would be required to increase service charges as follows:

Service Charge	Current charge per week	Full recovery cost per charge week	Increase per week	Impact per week with partial HB (ave. 34%)
Aerials	£1.55	£1.55	£0.00	£0.00
Laundry	£0.79	£1.13	£0.34	£0.22
Cleaning	£4.60	£5.23	£0.63	£0.42
Window cleaning	£0.75	£1.05	£0.30	£0.20
Total	£7.69	£8.96	£1.27	£0.84

Not all properties are subject to all service charges. Of all our contract holders, 2.8% are charged for four service charges and 5.6% are charged for three service charges.

Moving three of the existing service charges to full cost recovery would bring in additional income of £0.043m.

1.08 Capital Financing

The deed to terminate the voluntary agreement for the HRA borrowing cap was signed on the 2nd of December 2019, it is therefore important that going forward, increased borrowing in the HRA is carefully managed and monitored to ensure that it is sustainable and affordable to the business plan.

Borrowing should only be used for investment expenditure and not day-to-day running costs or maintaining WHQS. The HRA is likely to be required to increase borrowing in the future to fund WHQS.2 as Welsh Government have indicated this will not be fully funded via grant, therefore we need to manage the risk of this future borrowing by keeping current borrowing at prudent levels.

Borrowing undertaken by the HRA is repaid under the Annuity Method which is calculated in line with the useful life of the asset. Our current borrowing levels are shown below:

Capital Requirement	Financing	B/F Capital Financing Balance £'000	Proposed New Borrowing £'000	Less Repayments £'000	C/F Capital Financing Balance £'000
Prior Debt and HRA Subsidy Buyout		91,219	0	(1,184)	90,035
WHQS		19,349	0	(251)	19,098
SHARP		22,613	4,153	(293)	26,473
Regeneration		761	4,000	(10)	4,751
Total Capital Financing		133,942	8,153	(1,738)	140,357

Interest Rates

The HRA is part of the single debt pool for the Council. All borrowing for the Council is managed within one pool and the average borrowing rate for the Council is applied to all new borrowing in the HRA, the rate assumed in the business plan is 3.69% and interest payments for 2024/25 are estimated at £5.062m.

1.09 Reserves

There is a requirement to hold a minimum level of reserves of 3% of expenditure, however, it was agreed as part of the 2023/24 Business Plan, for Flintshire's HRA to increase reserves to 7% due to the level of financial risk in the HRA rising as a result of increased borrowing levels for new build and increasing costs due to the volatility of the economy.

Reserves should not be used to fund recurring pressures to the Business Plan and levels should be reviewed annually in line with the HRA's proposed borrowing commitments and budgetary risk factors.

In the current climate it would be prudent to maintain reserve levels at 7% of expenditure (£2.892m) as we have ongoing risks to the Business Plan which would have to be funded from reserves if they materialised:

- Pay award could be higher than budgeted
- Inflation could be higher than the provision in the Business Plan
- Arrears could increase due to the cost-of-living crisis
- Interest rates increasing due to the economic climate

1.10 Options to Fund

A minimum rent uplift of 6.5% is required for the Business Plan to remain affordable, this is below the WG rent cap of 6.7%

If we were unable to increase rents to the levels required, the following savings would need to be made to balance the budget:

Rent inflation assumption	Annual saving required to balance budget
6.5%	£ nil
4.0%	£1.450m
2.0%	£2.700m
Rent freeze	£3.750m

This would need to be achieved through a slowdown of the capital programme. A complex review of all HRA services would be required in 2024/25 to identify recurring savings (revenue and capital) to fund the Business Plan in the longer term, however this could lead to reduced HRA services and could impact on the quality of our housing stock provision and the ability to meet WHQS.2.0

2.00 RESOURCE IMPLICATIONS	
2.01	The HRA is a ring-fenced budget. This proposed HRA budget and Business Plan demonstrates that the council can achieve the ongoing WHQS, can meet service improvement plans and commitments and with prudential borrowing can continue its Council house building programme in 2024/25.

3.00 IMPACT ASSESSMENT AND RISK MANAGEMENT	
3.01	All households will benefit from the Councils WHQS 2023 programme. The impact of the investment planning and efficiencies is being modelled for various customer groups to ensure that there is no disproportionate impact on any groups with protected characteristics.
3.02	The Business Plan assumes a confirmation of Major Repairs Allowance (MRA) for 2024/25 and beyond, however, Welsh Government have indicated that the purpose of the funding will be reviewed in the future.

3.03 Ways of Working (Sustainable Development) Principles Impact

Long-term	Positive – There is a commitment to increase supply to provide the right types of homes in the right location.
Prevention	Positive – It is our aim to provide support to ensure people live and remain in the right type of home.
Integration	Positive - Achieving WHQS for all existing council houses and delivering new social housing will contribute to the integration within communities.
Collaboration	Positive - To deliver in partnership with stakeholders to support positive impacts for all our contract holders.
Involvement	Positive - Communication with contract holders, Members and other stakeholders.

Well-being Goals Impact

Prosperous Wales	Positive – Existing social homes are WHQS compliant and meet the changing housing needs. Also providing good quality new social homes aiming for low/zero carbon. Maximising local employment and training opportunities for local people.
Resilient Wales	Positive – Developing low / zero carbon homes through modern methods of construction and technologies. Ensuring that all statutory compliance requirements are adhered to.
Healthier Wales	Positive – Ensuring all existing homes and new homes are fit for purpose and meet the needs of all people.
More equal Wales	Positive - Provide good quality homes for the most vulnerable people in society.
Cohesive Wales	Positive – Contributing to attractive, viable and safe communities
Vibrant Wales	Positive – Ensuring all communities housing needs are supported
Globally responsible Wales	Positive – The HRA Business Plan will contribute to the improvement of the economic, social, environmental and cultural wellbeing of Wales.

4.00 CONSULTATIONS REQUIRED / CARRIED OUT

4.01 The report was presented to Community and Housing Overview and Scrutiny Committee on the 15th November 2023 and Cabinet on the 19th December 2023. Consultation has been undertaken with elected members

	on rent and service charge increases and further consultation will be undertaken with elected members on WHQS 2.0 investment.
4.02	Full local consultation is carried out for each new build scheme.
4.03	As part of the 2023/24 rent settlement, the Council gave a commitment to WG around engagement with contract holders and therefore a survey has conducted around affordability to inform rent setting for 2024/25.

5.00	APPENDICES
5.01	Appendix A – Draft Pressures and Efficiencies 2024/25.
5.02	Appendix B – Draft Capital Programme 2024/25.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None.

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Rachael Corbelli, Strategic Finance Manager Telephone: 01352 703363 E-mail: rachael.corbelli@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	<p>Financial Year: the period of 12 months commencing on 1 April 2024</p> <p>Revenue: a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.</p> <p>Capital expenditure: money spent by the organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.</p> <p>Budget: a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.</p> <p>Treasury Management: the Council has adopted the Chartered Institute of Public Finance Accountants (CIPFA) Treasury Management in the Public Services: Code of Practice. Treasury Management is conducted in accordance with the Council's Treasury Management Policy and Strategy Statement and Treasury Management Practices which are both reviewed annually. All borrowing and long term financing is made in accordance with</p>

CIPFA's Prudential Code.

Major Repairs Allowance: Welsh Government grant paid to local authorities in Wales who still manage and maintain their council housing.