

## COMMUNITY & HOUSING OVERVIEW AND SCRUTINY COMMITTEE

<b>Date of Meeting</b>	Wednesday 14 <sup>th</sup> December 2022
<b>Report Subject</b>	Housing Revenue Account (HRA) 30 Year Financial Business Plan
<b>Cabinet Member</b>	Cabinet Member for Housing and Regeneration  Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement
<b>Report Author</b>	Chief Officer (Housing and Communities) and Corporate Finance Manager
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

The purpose of this report is to present for consideration and comment, the draft HRA 30 year Financial Business Plan and the proposed HRA Budget for 2023/24.

### RECOMMENDATIONS

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| 1 | That Community, Housing and Assets Overview and Scrutiny Committee consider the HRA 30 year Financial Business Plan and budget for 2023/24 as set out in this report and attached appendices and provide their observations and comments. |
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE HRA BUSINESS PLAN 2023/24 UPDATE</b>
1.01	<p><b>Considerations</b></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"><li>• To ensure affordability for tenants is at the core of our considerations and that support is given to tenants who face financial hardship where they are engaged with the Council</li><li>• Continued drive to ensure all service costs are efficient and that value for money can be achieved</li><li>• To ensure the treasury management strategy continues to meet the Housing Revenue Account's new and ongoing borrowing requirements</li><li>• Setting a balanced budget with a minimum of 7% surplus revenue over expenditure</li><li>• Maximisation of revenue efficiencies to minimise the borrowing required to meet Welsh Housing Quality Standards (WHQS)</li><li>• Delivery of new build Council housing</li><li>• Continued drive to ensure homes are energy efficient and explore decarbonisation</li><li>• Provision of adequate ongoing capital to maintain WHQS levels</li></ul>
1.02	<p><b>Borrowing</b></p> <p>The deed to terminate the voluntary agreement for the HRA borrowing cap was signed on the 2<sup>nd</sup> 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. Work is ongoing with Welsh Government to develop a set of prudential borrowing indicators to enable transparent monitoring of this going forward.</p> <p>Historically, prudential borrowing was repaid at 2% per year, in line with the HRA's approved Minimum Revenue Provision (MRP), however since 2021/22, all borrowing undertaken by the HRA is repaid under the Annuity method which is reflective of increasing repayments in line with inflating rents.</p> <p>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 3.80%.</p>
1.03	<p><b>Rents</b></p> <p>In December 2019, Welsh Government released the revised rent policy for a 5-year period beginning in April 2020/21.</p>

The policy is designed to ensure that affordability for tenants 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 tenants 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 Welsh Minister with responsibility for housing will determine the appropriate change to rent levels to be applied for that year only.

CPI as of September 2022 was 10.1%. The Minister has considered the impact on tenants and sought a commitment from landlords that there will be arrangements in place to protect and enhance the provision of good quality housing and vital tenant support services, and based on this, has set a maximum limit at which social rents can increase to 6.5% from April 2023.

The previous rent policy set target rents for each type of property, to ensure consistency in rent setting, which has been introduced over a number of years on a transitional basis so that tenants paying under target rent would see no more than an inflation plus £2.00 increase per annum. Flintshire currently have a number of tenancies still paying under the target rent bands.

The rent increase modelled in the business plan for next financial year, however, applies an overall uplift of 5% to all tenants. It is also proposed that we do not implement a transitional increase of £2.00 per week to any of our tenants in 2023/24, to ensure that the rent uplift is equitable to all.

We have considered the impact on our tenants of a 5% rent uplift and this is summarised in the table below, it is important to note, however, that 71% of all of our tenants are eligible for HB/UC support towards their rent and service charges.

HB eligibility	Average % of rent paid by HB	Average impact on tenants p.w.
Full	100%	£0.00
Partial	74%	£1.30
None	0%	£5.00

We have chosen not to implement the highest allowable increase (6.5%) in order to balance affordability for tenants, whilst also maintaining our service delivery and the standard of our properties. The cost of not increasing rents

	<p>to the maximum permitted under the rent policy is £0.571m in 2023/24 and £23.242m over the life of the 30-year Business Plan.</p> <p>It is also assumed in the Business Plan that we will investigate the option of setting aside a “discretionary fund” within the HRA to further support any tenants who may face financial hardship specifically linked to the payment of rent.</p> <p>An overall inflationary increase of 5% forecasts rental income at £39.982m for 2023/24 which is an increase in income of £1.935m in year 1.</p>
1.04	<p><b>Garage Rents</b></p> <p>The proposed garage rent, and garage plot increase is 5% for 2023/24, which equates to £0.51 per week for garage rent and takes the rent per week to £10.74 (based on 52 weeks). The proposed garage plot increase is £0.08 per week taking the garage plot rent to £1.74 per week.</p> <p>The business plan anticipates income levels of £0.347m for garages and garage plots.</p>
1.05	<p><b>Service Charges</b></p> <p>The rent and service charges policy was introduced in 2015 and at that time 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.</p> <p>In 2020/21 the weekly service charges were increased based on a stepped approach over two years with the final phased increase to be implemented in 2021/22. It was agreed to delay this final increase and to freeze service charges in 2021/22, with a view to protecting tenants who may be experiencing financial difficulty as a result of Covid-19.</p> <p>It is proposed, as part of this business plan, that service charges continue to be frozen into 2023/24. This will enable us to ensure the services provided are of a high standard, represent value for money and that the true costs are reflected in the Service Charges calculations.</p>

## 1.06 **Capital Programme**

The total proposed capital programme for 2023/24 is £29.457m, summarised in Appendix C.

### **Revised WHQS**

Welsh Government are currently developing the revised standard for WHQS 2.0. The areas highlighted are:

- SAP (Standard Assessment Procedure) rating and methods of calculation
- Wellbeing
- Safe and Attractive Environments

Low / zero carbon homes is still a developing area and Welsh Government recommend that options are considered in our sensitivity analysis.

### **Regeneration**

A £2.200m regeneration budget has been allocated within the Capital Programme for 2023/24. The aim is to utilise this allocation to remodel HRA stock where the current stock is no longer fit for purpose. There are a number of pipeline schemes for consideration:

- Sheltered Housing Review
- Estate Remodeling
- Homeless Accommodation

### **SHARP**

£7.668m has been built into 2023/24 for new build Council housing. The programme currently has five schemes in the pipeline for 2023/24 which will provide an additional 52 properties into the current social housing stock.

The business plan also assumes a further 51 units in 2024/25 and 50 units per annum thereafter, up to 2030/31.

Capitalisation of the costs of the development team has been included in the programme at 4% of the total development budget.

From 2021/22 Welsh Government offered Social Housing Grant (SHG) to stock owned authorities calculated using a new Standard Viability Model. The new Model uses standard assumptions to discount income and costs over a set period to calculate the funding gap i.e., the grant allowable for each scheme. We have assumed a prudent level of grant towards our development programme.

1.07	<p><b>Capital Funding</b></p> <p>The £29.457m capital programme will be funded by:-</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><b>WHQS &amp; Asset Investment Funding</b></th> <th style="text-align: right;"><b>£m</b></th> </tr> </thead> <tbody> <tr> <td>Revenue Contribution (CERA)</td> <td style="text-align: right;">12.711</td> </tr> <tr> <td>Major Repairs Allowance</td> <td style="text-align: right;">4.978</td> </tr> <tr> <td>Energy Efficiency income (FIT)</td> <td style="text-align: right;">0.300</td> </tr> <tr> <td>Prudential Borrowing (Regeneration)</td> <td style="text-align: right;">2.200</td> </tr> <tr> <td>Optimised RetroFit Programme (ORP) Funding</td> <td style="text-align: right;">1.600</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>21.789</b></td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><b>New Build Funding</b></th> <th style="text-align: right;"><b>£m</b></th> </tr> </thead> <tbody> <tr> <td>Prudential Borrowing</td> <td style="text-align: right;">7.668</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>7.668</b></td> </tr> </tbody> </table>	<b>WHQS &amp; Asset Investment Funding</b>	<b>£m</b>	Revenue Contribution (CERA)	12.711	Major Repairs Allowance	4.978	Energy Efficiency income (FIT)	0.300	Prudential Borrowing (Regeneration)	2.200	Optimised RetroFit Programme (ORP) Funding	1.600	<b>Total</b>	<b>21.789</b>	<b>New Build Funding</b>	<b>£m</b>	Prudential Borrowing	7.668	<b>Total</b>	<b>7.668</b>
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1.07	<p><b>Reserves</b></p> <p>There is a requirement to hold a minimum level of reserves of 3% of expenditure, however, it was agreed as part of the 2021/22 Business Plan, for Flintshire’s HRA to move to 4% as a minimum reserve level due to the level of financial risk in the HRA rising as a result of increased borrowing levels for new build.</p> <p>It was also agreed that this should be reviewed annually and in the current challenging economic climate it is recommended that it would be prudent to increase reserves to 7% of expenditure as we have ongoing risks to the Business Plan which would have to be funded from reserves if they materialised:</p> <ul style="list-style-type: none"> <li>• 2023/24 pay award higher than budgeted</li> <li>• Utilities and cost inflation higher than expected due to the volatility of markets</li> <li>• Increasing arrears due to the cost of living crisis</li> <li>• Interest rates increasing due to the economic climate</li> </ul> <p>Reserves should not be used to fund recurring pressures in the Budget as this would make the Business Plan unsustainable, however, we are looking to utilise £0.589m of existing reserves towards one off pressures identified in the 2023/24 Business Plan, which is considered affordable and leaves a sufficient level of reserves to balance future risks.</p>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
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2.01	<p>The HRA is a ring-fenced budget. This 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 2023/24.</p>
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3.00	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>																					
3.01	All households will benefit from the Council's WHQS 2.0 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 2023/24 and beyond, however, Welsh Government have indicated that the purpose of the funding will be reviewed in the future.																					
3.03	The economic impact on interest rates and inflation has been mitigated by increasing the estimated assumptions included in the business plan.																					
3.04	<p><b>Ways of Working (Sustainable Development) Principles Impact</b></p> <table border="1" data-bbox="284 752 1347 1312"> <tbody> <tr> <td data-bbox="284 752 708 864">Long-term</td> <td data-bbox="708 752 1347 864">Positive – There is a commitment to increase supply to provide the right types of homes in the right location.</td> </tr> <tr> <td data-bbox="284 864 708 976">Prevention</td> <td data-bbox="708 864 1347 976">Positive – It is our aim to provide support to ensure people live and remain in the right type of home.</td> </tr> <tr> <td data-bbox="284 976 708 1124">Integration</td> <td data-bbox="708 976 1347 1124">Positive - Achieving WHQS for all existing council houses and delivering new social housing will contribute to the integration within communities.</td> </tr> <tr> <td data-bbox="284 1124 708 1236">Collaboration</td> <td data-bbox="708 1124 1347 1236">Positive - To deliver in partnership with stakeholders to support positive impacts for all our tenants.</td> </tr> <tr> <td data-bbox="284 1236 708 1312">Involvement</td> <td data-bbox="708 1236 1347 1312">Positive - Communication with tenants, Members and other stakeholders.</td> </tr> </tbody> </table> <p><b>Well-being Goals Impact</b></p> <table border="1" data-bbox="284 1420 1347 2078"> <tbody> <tr> <td data-bbox="284 1420 708 1680">Prosperous Wales</td> <td data-bbox="708 1420 1347 1680">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.</td> </tr> <tr> <td data-bbox="284 1680 708 1863">Resilient Wales</td> <td data-bbox="708 1680 1347 1863">Positive – Developing low / zero carbon homes through modern methods of construction and technologies. Ensuring that all statutory compliance requirements are adhered to.</td> </tr> <tr> <td data-bbox="284 1863 708 1975">Healthier Wales</td> <td data-bbox="708 1863 1347 1975">Positive – Ensuring all existing homes and new homes are fit for purpose and meet the needs of all people.</td> </tr> <tr> <td data-bbox="284 1975 708 2051">More equal Wales</td> <td data-bbox="708 1975 1347 2051">Positive - Provide good quality homes for the most vulnerable people in society.</td> </tr> <tr> <td data-bbox="284 2051 708 2078">Cohesive Wales</td> <td data-bbox="708 2051 1347 2078">Positive – Contributing to attractive, viable</td> </tr> </tbody> </table>		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 tenants.	Involvement	Positive - Communication with tenants, Members and other stakeholders.	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
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		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.

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	Detailed consultation will be undertaken with tenants and elected members to inform the preparation of the WHQS investment programme.
4.02	Full local consultation is carried out for each new build scheme.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A – Summary HRA Rent Charges 2023/24.
5.02	Appendix B – Draft 30 Year HRA Financial Business Plan Summary.
5.03	Appendix C – Draft Capital Programme 2023/24.
5.04	Appendix D – Draft Pressures and Efficiencies 2023/24.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<b>Contact Officer:</b> Vicky Clark, Chief Officer Housing and Communities <b>Telephone:</b> 01352 702500 <b>E-mail:</b> vicky.clark@flintshire.gov.uk

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<b>Financial Year:</b> the period of 12 months commencing on 1 April 2023.  <b>Revenue:</b> 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.  <b>Capital expenditure:</b> money spent by the organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.  <b>Budget:</b> 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.

**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 CIPFA's Prudential Code.

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