

CABINET

Date of Meeting	Tuesday 19 th November 2024
Report Subject	Housing Revenue Account (HRA) 30 Year Financial Business Plan
Cabinet Member	Deputy Leader of the Council and Cabinet Member for Housing and Communities
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 2025/26.

RECOMMENDATIONS

1	To consider the HRA budget for 2025/26 as set out in the report.
2	To consider the proposed minimum rent increase of 2.7%.
3	To consider a garage rent increase of 2.7%.
4	To consider the increase in service charges to full cost recovery.
5	To consider the pressures and efficiencies set out in Appendix A.
6	To consider the proposed HRA Capital programme for 2025/26 as set out in Appendix B.

REPORT DETAILS

1.00	EXPLAINING THE HRA BUSINESS PLAN 2025/26 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 and acquisitions of existing properties• 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="327 1299 1316 2072"><p style="text-align: center;">HRA Funding 2024/25</p><table border="1"><thead><tr><th>Category</th><th>Percentage</th></tr></thead><tbody><tr><td>Net Rental Income</td><td>73%</td></tr><tr><td>Borrowing</td><td>14%</td></tr><tr><td>Grants</td><td>11%</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>0%</td></tr></tbody></table></div>	Category	Percentage	Net Rental Income	73%	Borrowing	14%	Grants	11%	Other income	1%	Non Dwelling Rents	1%	Charges for Services	0%
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	<p>The graph above indicates that the majority of the HRA funding (73%) comes from the rents charged to its customers and a further 25% of its funding comes from grants, in the form of the Major Repairs Allowance (MRA), Social Housing Grant (SHG), Transitional Accommodation Capital Funding (TACP) and borrowing. The remaining 2% 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.</p> <p>An additional budget requirement of £0.377m has been identified for 2025/26. Of this, £0.179m relates to uncontrollable pressures such as pay and general inflationary increases and the remaining £0.198m are service pressures.</p> <p>We have also identified £1.062m of efficiencies to offset the pressures, which leaves a net saving of £0.685m in 2025/26.</p>
1.04	<p>Capital Programme</p> <p>The total proposed capital programme for 2025/26 is £28.683m, summarised in Appendix B.</p> <p>WHQS 2023</p> <p>A total of £18.989m has been allocated for ongoing WHQS works.</p> <p>WHQS.2023 works are continuing, 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.</p> <p>The standard focuses on affordable warmth with a target energy pathway of EPC 'C'. In support of the target Welsh Government have asked Landlords to advise on how they will meet net zero carbon by 2027. Welsh Government have asked Landlords to assess their stock and produce energy pathways for homes by 2027.</p> <p>The new standard will place significant additional capital pressures on the HRA over the coming 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 2025/26 capital budget increases the energy efficiency programme of works to £5.241m as part of a programme to assess the best way to achieve net carbon zero homes.</p> <p>Disabled Facilities Grants (DFGs)</p> <p>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.</p>

Regeneration

A £4.000m regeneration budget has been allocated in the Capital Programme for 2025/26. 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
- Assist with reducing Homelessness – acquiring existing properties.

SHARP

£4.594m has been built into 2025/26 for the development of Council housing. The capital programme is currently forecasting the addition of 50 units per annum, 10 buybacks and 40 new builds, for the next 5 years. The costs are 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. Buybacks must payback within 40 years.

Asset Investment Budget Breakdown	£m
10 Buy back properties & 40 New Builds	4.594
Total	4.594

Capital Funding

The £28.683m capital programme will be funded by:

WHQS & Asset Investment Funding	£m
Revenue Contribution (CERA)	14.811
Major Repairs Allowance	4.978
Energy Efficiency income (FIT) & ORP Grant	0.300
Prudential Borrowing (Regeneration)	4.000
Prudential Borrowing (SHARP)	4.594
Total	28.683

1.05 Rent Setting

In December 2019, Welsh Government released the revised rent policy for a 5-year period beginning in April 2020/21, this policy has now been extended whilst a new rent policy is being developed.

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 2024 was 1.7%. Our modelling in the current business plan assumes a rent increase of 2.7%.

Setting rent lower than 2.7% will mean the HRA will need to find further efficiencies of circa £0.400m every year for each 1% rent reduction.

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 64% 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%	£2.47
None	0%	£3.72

Consultation with contract holders will be via a section in the Star Survey to be distributed in October and a meeting with the tenant’s federation has been organised.

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

The proposed garage rent and garage plot increase is 2.7% for 2025/26, which equates to £0.31 per week for garage rent and takes the rent per week to £11.75 (based on 52 weeks). The proposed garage plot increase is £0.05 per week taking the garage plot rent to £1.85 per week.

The business plan anticipates income levels of £0.305m 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 charge per week	cost per week	Increase per week	Impact per week with partial HB (ave. 34%)
Aerials	£1.55	£1.55		£0.00	£0.00
Laundry	£1.13	£1.20		£0.07	£0.05
Cleaning	£5.23	£5.75		£0.52	£0.34
Window Cleaning	£1.05	£1.05		£0.00	£0.00
Alarms	£3.18	£3.53		£0.35	£0.23
Total	£12.14	£13.08		£0.94	£0.62

Not all properties are subject to all service charges. Of all our contract holders, 2.4% are charged for five service charges and 2.5% are charged for four service charges and 9.6% for three.

The increase of the service charges would bring in additional income of £0.014m.

1.08 **Capital Financing**

The deed to terminate the voluntary agreement for the HRA borrowing cap was signed on the 2nd 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:

Total HRA borrowing undertaken to date	£
Prior debt and HRA subsidy buyout	103,108,830
WHQS	21,871,366
SHARP	24,767,993
Regeneration	860,000
Total HRA Borrowing	150,608,189
Less repayments to date	(19,187,108)
Net HRA Borrowing	131,421,081
New Borrowing for 2025/26	£
SHARP	4,594,050
Regeneration	4,000,000
Total New HRA Borrowing	8,594,050
Total Capital Financing at 2025/26	140,015,131

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 4.5% and interest payments for 2025/26 are estimated at £6.068m.

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 2024/25 Business Plan, for Flintshire's HRA to move to 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 a minimum of 7% of expenditure (£2.922m) 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.

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 2025/26.

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 2025/26 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	As part of the 2023/24 rent settlement, the Council gave commitment to WG around engagement with contract holders. The Star Survey will now include questions on rent affordability to inform any decision making on rent setting.

5.00	APPENDICES
5.01	Appendix A – Draft Pressures and Efficiencies 2025/26.
5.02	Appendix B – Draft Capital Programme 2025/26.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None.

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

8.00	GLOSSARY OF TERMS
8.01	<p>Financial Year: the period of 12 months commencing on 1 April 2025</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 CIPFA’s Prudential Code.</p> <p>Major Repairs Allowance: Welsh Government grant paid to local authorities in Wales who still manage and maintain their council housing.</p>