

**CABINET**

<b>Date of Meeting</b>	Tuesday 15 <sup>th</sup> February 2022
<b>Report Subject</b>	Housing Revenue Account (HRA) 30 Year Financial Business Plan
<b>Cabinet Member</b>	Cabinet Member for Finance, Social Value & Procurement Cabinet Member for Housing
<b>Report Author</b>	Chief Executive Corporate Finance Manager
<b>Type of Report</b>	Strategic

**EXECUTIVE SUMMARY**

This report deals with the Housing Revenue Account (HRA) draft 30 year Financial Business Plan and the proposed HRA Budget for 2022/23.

The rent increase proposed in the business plan, applies an overall uplift of 1.18% to all tenants and, in addition, applies the transitional uplift of £2 to tenants who currently pay at least £3 under target rent. This equates to an overall rent increase of 2% in the Business plan. An overall inflationary increase of 2% forecasts rental income at £38.047m for 2022/23.

The proposed garage rent and garage plot increase is 2% for 2022/23, which equates to £0.20 per week for garage rent and takes the rent per week to £10.23 (based on 52 weeks). The proposed garage plot increase is £0.03 per week taking the garage plot rent to £1.66 per week.

The business plan anticipates income levels of £0.395m for garages and garage plots.

Service charges will be frozen again for financial year 2022/23.

The total proposed capital programme for 2022/23 is £25.074m, summarised in Appendix C of this report.

## RECOMMENDATIONS

1	That Cabinet support and approve the HRA budget for 2022/23 as set out in the attached appendices.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE HRA BUSINESS PLAN 2022/23 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</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 4% 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 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. 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 has been repaid at 2% per year, in line with the HRA's approved Minimum Revenue Provision (MRP). From 2021/22, any new borrowing undertaken by the HRA must be repaid under the Annuity method or the Straight Line method which is calculated in line with the useful life of the asset. However, we also have a choice as to how to repay our old borrowing – we could continue using the old reducing balance method or move to the Annuity method or Straight Line method. There are merits to both the Straight Line method and the Annuity method.</p>

	<p>Both methods have been assessed and both are affordable options to the HRA, however it is recommended that we move to the Annuity method for all HRA debt as this is CIPFA's recommended practice for accounting for MRP, it more accurately reflects the time value of money and annual rent increases and is in line with the Council's prudent provision for MRP.</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> <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.</p> <p>The Rent Policy for Social Housing Rents from 2020/21 sets out the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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%.</li> </ul> <p>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 at September 2021 was 3.1%. On 29<sup>th</sup> December 2021 the Minister for Housing announced that the maximum uplift for 2022/23 rents will be up to CPI only (3.1%).</p> <p>The previous Rent policy also set target rents for each type of property to ensure consistency in rent setting, this 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 increase per annum. Flintshire currently have a number of tenancies still paying under the target rent bands.</p> <p>The rent increase proposed in the business plan, applies an overall uplift of 1.18% to all tenants and, in addition, applies the transitional uplift of £2 to tenants who currently pay at least £3 under target rent. This equates to an overall rent increase of 2% in the Business plan.</p> <p>This ensures that no individual tenant will pay more than the maximum allowed under the policy but moves towards readdressing the disparity</p>

	<p>between those rents under and those at target rent and seeks to make rent charges to all tenants more equitable. This also ensures rents remain affordable for tenants in the recovery from COVID-19.</p> <p>An overall inflationary increase of 2% forecasts rental income at £38.019m for 2022/23.</p> <p>It is proposed that all void properties are moved to target rent upon turnover to assist in the transition towards target rent levels. Setting rent inflation at 2% across all of our stock allows us to make this adjustment and remain within the maximum allowable rent increase of 3.1%.</p>
1.04	<p><b>Garage Rents</b></p> <p>The proposed garage rent and garage plot increase is 2% for 2022/23, which equates to £0.20 per week for garage rent and takes the rent per week to £10.23 (based on 52 weeks). The proposed garage plot increase is £0.03 per week taking the garage plot rent to £1.66 per week.</p> <p>The business plan anticipates income levels of £0.395m 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 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 that these increases are frozen again in 2022/23 due to the ongoing impact of the pandemic and during 2022/23 further work will be undertaken to ensure 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	<p><b>Capital Programme</b></p> <p>The total proposed capital programme for 2022/23 is £25.074m, summarised in Appendix C.</p> <p><b>Revised WHQS</b></p> <p>Welsh Government are currently developing the revised standard for WHQS 2.0 from 2022/23. Areas highlighted:</p> <p>SAP rating and methods of calculation</p>

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 £1m Regeneration budget has been allocated into the Capital Programme for 2022/23. 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

£7.808m has been built into 2022/23 for new build Council housing. The programme currently has four schemes due to start on site imminently which will provide an additional 77 properties to the housing stock. Two of the schemes are working in partnership with the Homelessness team to provide much needed Homeless accommodation.

The business plan also assumes a further 50 units per annum.

Capitalisation of the costs of the development team has now been included in the programme at 4% of the 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. Three of the four schemes for 22/23 have secured SHG funding.

<b>Asset Investment Budget Breakdown</b>	<b>£m</b>
Schemes agreed in 2021/22 report	7.808
<b>Total</b>	<b>7.808</b>

1.07

### Capital Funding

The £25.074m capital programme will be funded by:-

<b>WHQS &amp; Asset Investment Funding</b>	<b>£m</b>
Revenue Contribution (CERA)	10.898
Major Repairs Allowance	4.968
Energy Efficiency income (FIT)	0.400
Prudential Borrowing (Regeneration)	1.000
<b>Total</b>	<b>17.266</b>

	<table border="1"> <tr> <td><b>New Build Funding</b></td> <td><b>£m</b></td> </tr> <tr> <td>Prudential Borrowing</td> <td>7.808</td> </tr> <tr> <td><b>Total</b></td> <td><b>7.808</b></td> </tr> </table>	<b>New Build Funding</b>	<b>£m</b>	Prudential Borrowing	7.808	<b>Total</b>	<b>7.808</b>
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Prudential Borrowing	7.808						
<b>Total</b>	<b>7.808</b>						
1.08	<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 in line with the HRA's proposed borrowing commitments and prudential debt indicators and it is recommended that the level of reserves is maintained at 4% for 2022/23.</p>						

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	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 2022/23.

<b>3.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>
3.01	All households will benefit from the Councils 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 2022/23 and beyond, however, Welsh Government have indicated that the purpose of the funding will be reviewed in the future.
3.03	The potential impact of BREXIT on interest rates and inflation has been mitigated by increasing the estimated assumptions included in the business plan.

3.04	<b>Ways of Working (Sustainable Development) Principles Impact</b>	
	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.
	<b>Well-being Goals Impact</b>	
	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.	

<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.
4.03	The proposed rent inflation uplift for 2022/23 was consulted on and accepted at the Tenants Federation meeting in January 2022.
4.04	The report was presented to the Community and Housing Assets Overview and Scrutiny Committee, who were supportive.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A – Summary HRA Rent Charges 2022/23.
5.02	Appendix B – Draft 30 Year HRA Financial Business Plan Summary.
5.03	Appendix C – Draft Capital Programme 2022/23.
5.04	Appendix D – Draft Pressures and Efficiencies 2022/23.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Integrated Impact Assessment has been completed.

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

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p><b>Financial Year:</b> the period of 12 months commencing on 1 April 2022.</p> <p><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.</p> <p><b>Capital expenditure:</b> money spent by the organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.</p> <p><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.</p> <p><b>Treasury Management:</b> the Council has adopted the Chartered Institute</p>



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.