Cabinet

Excerpt of minutes of the meeting held on Wednesday 6 March 2024 in Shire Hall, Warwick at 6.00pm.

Present: Councillors Davison (Leader), Chilvers, J Harrison, Kennedy, King, Roberts, Sinnott and Wightman.

Also Present: Councillors: Boad (Liberal Democrat Group Observer), Hales (Conservative Group Observer), and Falp (Whitnash Residents Association Group Observer).

94. **Apologies for Absence**

An apology for absence was received from Councillor Billiald.

95. **Declarations of Interest**

There were no declarations of interest made.

96. **Minutes**

The minutes of the meeting held on 8 February 2024 were taken as read and signed by the Chair as a correct record.

Part 1
(Items upon which a decision by the Council was required)

97. **Treasury Management Strategy 2024/25**

The Cabinet considered a report from Finance which detailed the strategy that the Council would follow in carrying out its treasury management activities in 2024/25.

The Authority was required to operate a balanced revenue budget, which broadly meant that cash raised during the year would meet cash expenditure. Part of the treasury management operation was to ensure that this cash flow was adequately planned, with cash being available when it was needed. Surplus monies were invested in low-risk counterparties or instruments commensurate with the Authority’s low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service was the funding of the Authority’s capital plans. These capital plans provided a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it could meet its capital spending obligations. This management of longer-term cash might involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it was prudent and economic, any debt previously drawn might be restructured to meet risk or cost objectives.

The contribution the treasury management function made to the Authority was critical, as the balance of debt and investment operations ensured liquidity or the ability to meet spending commitments as they fell due, either on day-to-day revenue or for larger capital projects. The treasury operations would see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally resulted from reserves and balances, it was paramount to ensure adequate security of the sums invested, as a loss of principal would in effect result in a loss to the General Fund Balance.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defined treasury management as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

This definition was included within this Council's Treasury Management Policy Statement 2024/25, at Appendix A to the report.

While any 'commercial' initiatives or loans to third parties would impact on the treasury function, these activities were generally classed as non-treasury activities, (arising usually from capital expenditure), and were separate from the day-to-day treasury management activities.

The Council's treasury management operations were governed by various Treasury Management Practices (TMPs) that the CIPFA Treasury Management Code required to be produced by the Council and adhered to by those officers engaged in the treasury management function. These TMPs had previously been reported to the Cabinet and were subject to periodic Internal Audit review.

There were updates made to the TMPs before 1 April 2022, and a major re-write was undertaken to fully incorporate the 2021 CIPFA recommendations.

Under CIPFA's updated Treasury Management in Public Services Code of Practice, the Council continued to be required to have an approved annual Treasury Management Strategy, under which its treasury management operations could be carried out. The proposed Strategy for 2024/25 was included as Appendix B to the report.

This Council had regard to the Government's Guidance on Local Government Investments. The guidance stated that an Annual Investment Strategy had to be produced in advance of the year to which it related and had to be approved by Council. The Strategy could be amended at any time, and it had to be made available to the public. The Annual Investment Strategy for 2024/25 was shown as Appendix C to the report.

The Council had to make provision for the repayment of specified outstanding debt and other forms of borrowing such as finance leases. Statutory guidance issued by DLUHC required that a statement on the Council's Minimum Revenue Provision (MRP) Policy should be submitted to Council for approval before the start of the relevant financial year. This was contained in Appendix D to the report.

On 30 November 2021, DLUHC issued "Consultation on changes to the capital framework: Minimum Revenue Provision", to last for 10 weeks until 8 February 2022. Then on 21 December 2023, the Government launched the final consultation on changes to the MRP regulations and statutory guidance.

The consultation would close on 16 February 2024, with Link releasing its response to assist clients to respond. All authorities were encouraged to respond.

The draft legislation in the Consultation said that the changes would take effect from 1 April 2024, impacting on the year 2024/25 and the MRP Policy contained in Appendix D of the report.

The Government was concerned that all councils would comply with the duty to make a prudent minimum revenue provision.

The latest Consultation acknowledged that councils believed that a prudent MRP policy should enable them to elect to use capital receipts from capital loan repayments to be put aside to repay debt in place of the revenue charge. This had major implications for Warwick District Council, particularly for the housing joint venture, so along with many councils, WDC responded against the removal of this discretion.

The recommended MRP Policy at Appendix D would still enable the MRP to exclude such loan repayments, subject to full repayment of the loans. It incorporated several changes recommended by Link (paragraphs 5.4 and 5.5 in the report) as part of a report commissioned on the impact of loans to Milverton Homes Limited.

The Council was required to approve an Annual Treasury Management Strategy, an Annual Investment Strategy, and a Minimum Revenue Provision Policy Statement before each financial year. These strategies and policy for 2024/25 were contained in Appendices B, C and D, respectively. This meeting would be held on 20 March 2024, ahead of the statutory deadline of 31 March 2024. Therefore recommendations 1 to 3 would ensure compliance with these requirements.

The Council was also required to publish and monitor Prudential and Treasury Indicators. This was covered by recommendation 4.

The Prudential Code required Council to approve several Prudential and Treasury Indicators, including amounts of borrowing required to support capital expenditure, set out in Appendix E to the report, which had to be considered when determining the Council's Treasury Management Strategy, which should assess the risks and rewards of significant investments over the long-term, as opposed to the usual three to five years that most local authority financial planning had been conducted over, to ensure the long-term financial sustainability of the authority. (CIPFA had not defined what longer-term meant, but it was likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium-term financial planning, at a higher level of detail, was probably aimed at around a 10-year timeframe and focused on affordability in particular.)

The Prudential Code for Capital Finance in Local Authorities was last revised on 20 December 2021 and introduced new requirements for the way that capital spending plans were considered and approved, in conjunction with the development of an integrated Treasury Management Strategy. It was effective immediately, but councils were permitted to defer reporting until 2023/24. Given the other workstreams the Council was facing, and that this was the advice of the treasury advisers, the Council agreed to defer until the statutory deadline.

The key points were summarised in Section 1.22 in the report.

The revised Treasury Management Code required all investments and investment income to be attributed to one of the following three purposes:

1. Treasury management - Arising from the organisation's cash flows or treasury risk management activity, this type of investment represented balances which were only held until the cash was required for use. Treasury investments might also arise from other treasury risk management activity which sought to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
2. Service delivery - Investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Returns on this category of investment which were funded by borrowing were permitted only in cases where the income was 'either related to the financial viability of the project in question or otherwise incidental to the primary purpose'.
3. Commercial return - Investments held primarily for financial return with no treasury management or direct service provision purpose.

The main requirements of the Prudential Code relating to service and commercial investments were:

- The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.
- An authority had to not borrow to invest for the primary purpose of commercial return.
- It was not prudent for local authorities to make any investment or spending decision that would increase the CFR, and so might lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns were either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- A prudential indicator was required for the net income from commercial and service investments as a proportion of the net revenue stream.
- Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

As previously stated, the Council had no 'Commercial return' investments.

The recommendations would enable the Council to operate within the known budgetary framework to be set for 2024/25 but if the Prudential Indicators needed to be adjusted during the year, a further report would need to be brought to Council for approval.

In terms of alternatives, the report set out the capital spending and borrowing requirements for the financial year 2024/25 within the Prudential Indicators (PIs). The Council could increase or decrease these limits, provided that these PIs were within the envelope of what was affordable and prudent, taking account of interest costs and the Minimum Revenue Provision ("depreciation") requirements.

The Overview & Scrutiny Committee thanked officers for their hard work bringing the detailed and thorough report forward. The Committee was reassured by explanations around sensitivity analysis and the impact on Milverton Homes.

The Overview & Scrutiny Committee welcomed the initiative to bring forward more information on Treasury Management and affordability when decisions were being made on capital expenditure. It was pleased that the Portfolio Holder, Councillor Chilvers was keen to explore the initiative to set clear parameters to enable councillors to be confident in future borrowing decisions.

Councillors Milton, Boad, Falp and Hales emphasised the importance of finance training, and for this to be well-attended by Members.

Councillor Davison thanked the Principal Accountant for the training session provided and for the report.

Councillor Chilvers, Portfolio Holder for Resources, proposed the report as laid out.

Recommended to Council that

(1) the Treasury Management Strategy for 2024/25 as outlined in paragraph 1.9 and contained in Appendix B, be approved;

(2) the 2024/25 Annual Investment Strategy as outlined in paragraphs 1.10 and contained in Appendix C, be approved;

(3) the Minimum Revenue Provision Policy Statement as outlined in paragraph 1.11 and contained in paragraphs 5.1 to 5.5 of Appendix D, be approved; and

(4) prudential and Treasury Indicators as outlined in paragraph 1.18 and contained in Appendix E, including the amount of long-term borrowing required for planned capital expenditure, be approved.

(The Portfolio Holder for this item was Councillor Chilvers.)

Forward Plan Reference 1,429

98. **Revisions to the Constitution**

The Cabinet considered a report from The Head of Governance and Monitoring Officer which brought forward proposals for consideration by the Cabinet in respect of two distinct areas of the Constitution:

- Public Speaking at Planning Committee and;
- clarification on the Code of Procurement Practice.

Subject to the clarification on procurement, it also sought approval for procurement exercises in line with the Confidential Appendix to the report.

The report brought forward several aspects for consideration by the Cabinet, and the reasons for these were set out in the report.

The current procedure rules for Planning Committee were worded so that supporters/applicants might only address the Committee if speakers in the Objectors category were registered to speak. This might or might not have been the intention behind this proposal. However, on review by officers, this was considered to be unfair, in that the Applicant/Supporter was not allowed to address the Committee if the Town/Council, Conservation Advisory Forum, or Ward Councillor spoke against the application.

The Chair and Vice-Chair of the Planning Committee had been consulted on the proposal with and they supported it.

The current procedure code of Procurement Practice said that Elected Members would "Consider initial business cases in relation to the Council's significant procurement project". This had been reviewed by officers following recent questions from Councillors and Officers on what and at what stage should Cabinet be approving procurement exercises.

There was no definition provided of "significant" and therefore, following discussions with Legal Services it was accepted the definition would therefore defer to that of Key Decisions which were set out within Article 13 of the Constitution, because Articles of the Constitution took precedent.

There were currently over 100 contracts that WDC held in excess of the Key Decision Value of £150,000. Over the next 18 months it was expected around 50, excluding those in this report, would need to be considered by Cabinet. Those 50 were not all renewals of current contracts but also new areas of work such as the Cabinet report in February regarding the paddling pools. The revision would mean that Cabinet had a report setting out procurement exercises at an early stage to approve the remit of the exercise and the budget for that specific exercise.

As part of the wider review of procurement procedures, officers would be bringing forward proposals to the procurement champions on when a more detailed business case and report would be required by Cabinet.

As part of the review of procurement, following the advice on procurement exercises being defined as significant, a number were identified that needed to be considered by Cabinet. These were set out in the Confidential Appendix to the report. (The Appendix was confidential because of the values associated and the Council not wanting to declare the anticipated budget.)

It should be noted that these exercises were at various stages of procurement, due to when the issue was identified, and in those instances the work on procurement had almost been completed and these were brought back for confirmation to enable the works to be completed.

There were significant changes to procurement regulations making their way through Parliament, the Procurement Act received Royal Ascent in October 2023. Secondary legislation was about to be launched and it was anticipated the implementation phase would start from April 2024.

In terms of alternative options, in respect of recommendation 1 the Cabinet could decide to retain the procedure as at present however, this was considered not to provide equal opportunity to address Council.
In respect of recommendation 2 the Cabinet could recommend a different or higher value. However, in doing so it would also then require new procedures to be introduced for officers to take key decisions. In doing so this would require further decisions from Cabinet and Council. Therefore, this was not recommended at this time but might be a consideration for the wider review of procurement policies.

In respect of recommendation 3 the Cabinet could decide not to approve some or all of the proposed activities, however some of these had been identified at advanced stages and to pause or stop at this stage would significantly delay some of these activities where new contracts were required.

Councillor Davison proposed the report as laid out.

Recommended to Council that

(1) the public speaking procedure rules for Planning Committee in the Council's Constitution be amended to include the following revised Paragraph:

"To ensure equity, applicants/supporters of the application will only be allowed to address the Committee if somebody has registered to speak ***objecting to*** *~~in the objectors category for~~ the application, except for cases where the recommendation is to refuse. An objector to the application may only address the Committee if an**yone** ~~Applicant/Supporter~~ is registered to speak* ***in support of*** *the application, except for cases where the recommendation is to grant."*; and

(2) the Code of Procurement Practice be revised so that the definition of substantial procurement is defined as procurement exercises equal to or above the values defined as a Key Decision in Article 13 of the Constitution, be approved.

Resolved that

(1) the procurement of the following be approved, in line with the Confidential Appendix 1 to the report:

i. Memorial Safety inspections
ii. WDC Corporate Cleaning
iii. Insurance coverage and associated Services
iv. Leaseholder Insurance coverage and associated Services
v. Temporary accommodation DPS
vi. Water provider
vii. Leamington Seasonal lights
viii. Committee Management system
ix. Provision of Pantomime Production at Royal Spa Centre
x. Supply and Delivery of Bulk Liquefied Petroleum Gas
xi. Parking machine supply and maintenance
xii. Hybrid Mail
xiii. Maintenance and repairs on Cremator equipment at Oakley Wood crematorium; and

(2) it be noted that ahead of new procurement regulations that are anticipated to come into force in the next eight months, there will be a wider review of the Council's Code of Procurement Practice and associated procedures that will be considered by the Procurement Champions and reported back to Cabinet.

(The Portfolio Holders for this item were Councillors Davison and Chilvers.)
Forward Plan Reference 1,435

99. **Housing Revenue Account Business Plan Review 2024**

The Cabinet considered a report from the Head of Housing which sought a review of the Housing Revenue Account Business Plan (HRA BP) to reflect changes in legislation, the housing market and business assumptions. The Council was required to present a 30-year HRA BP as a minimum but had adopted a 50-year HRA BP which had to remain viable in line with the longer-term financial commitments, allowing the Council to manage and maintain its housing stock, to proceed with the projects already approved by Cabinet, to service the debt created by the HRA becoming self-financing, to service the debt from new borrowing and provide a financial surplus.

The HRA BP had to remain robust, resilient, and financially viable. Revising the HRA BP annually ensured the Council's HRA was able to continue to maintain and improve its housing stock, take steps to tackle climate change and the cost of energy for tenants whilst also delivering much needed new social and affordable housing in the District and facilitate the re-financing of the £136.2m 2012 self- financing loan as detailed in paragraphs 1.3-1.5 of the report.

The HRA detailed the plans for development and acquisition expenditure in the Housing Investment Plan (HIP) alongside its budgets for the major works of its housing stock and any capital grant related projects. In recent years there had been extra demands placed on the HIP from housing development schemes, but also from the requirement to complete increased levels of work and costs linked with maintaining and improving the housing stock in line with the Climate Emergency announcement in 2019 and increased levels of Fire Safety Works. The HIP ensured the long-term planning of these costs, schedules of works and developments to ensure there were sufficient resources in place.

As detailed in Appendix 2 to the report, the balance of the Housing Revenue Account Capital Investment Reserve (HRA CIR) at the end of the current 2023/24 financial year was expected to be £10.2m and, based on current projections, would reduce annually until 2032/33. This would start to increase again when the model forecasts on income, in particular that linked to an increase in our housing stock, came on stream following upfront costs being incurred during the purchase and development phase.

The original self-financing plan was to service the Public Works Loan Board (PWLB) Maturity Loan interest cost for 40 years and then begin to pay the £136.2m debt capital back in intervals of £13m-£19m over a 10-year period from 2051/52-2061/62 using balances accumulated in the HRA CIR & Major Repairs Reserve (MRR).

By 2061/62 there was a forecast capacity of £196.6m to pay off the outstanding debt of £136.2m made up of balances £172.9m in the CIR and £23.8m in the MRR. At this point the HRA had the option to refinance the loan repayments for the period 2051/52-2061/62 and repay some of the debt. Specialist advice was sought from Link Treasury Management, who confirmed that there was no legal requirement to repay the debt within the original timeframe linked with the Government's original Self-Financing legislation. It was advised that a number of other Local Authorities had taken the decision to refinance their self- financing debt to enable them to focus on house building and other priorities in the short term. Indeed, this was the financial model adopted by many housing associations. Link Treasury Management advised that a similar level of interest repayment should be assumed in the HRA BP for an indefinite period if the decision to refinance the repayment of Debt Capital was made.

Approval of any plans for the partial repayment of debt would need to be revised at that point in time alongside the assessment of further borrowing required. The HRA Business Plan remained viable when continuing to fund the annual £4.765m in self-financing interest payments for the 50-year plan.

The revised HRA BP would be able to maintain existing service provision, fully meet the responsive and cyclical repair needs of the HRA stock and continue to invest in refurbishment and improvement work to maintain the Decent Homes Standard through the HIP.

The removal of the HRA Borrowing cap on the 30 October 2018 by the Department for Levelling up, Housing and Communities (DLUHC), previously known as the Ministry of Housing Communities & Local Government (MCHLG) was implemented to enable Councils to build more homes. During MHCLG's consultation on the matter the borrowing cap was stated to be the biggest barrier to Councils building new homes and as such the cap was removed to "reaffirm the appetite to deliver a new generation of council homes".

From 15 June 2023, the Government introduced the 'HRA rate', which applied an interest rate of the gilt yield plus 40 basis points (0.40%) which was equivalent to the PWLB standard rate less 60 basis points (0.60%). This rate was solely intended for use in Housing Revenue Accounts and primarily for new housing delivery. This HRA Certainty Rate was currently available until June 2025, and although it might be extended, this could not be assumed.

However, since 2020 the interest rate at which the Council could borrow for HRA Capital Works had increased significantly, in line with inflation and overall interest rate movements. The Council was no longer able to borrow at the pre- 2022 level of interest rate, which were at a time that the Council still had significant levels of investments and could not justify the 'carrying costs' of borrowing from the PWLB then when it would have earnt less from investing those funds in the short to medium term.

The Council's overall levels of investments had now reduced to a level where the 'internal borrowing' that the HRA had taken from the General Fund could no longer be maintained, and the Council had begun to externalise the borrowing by taking HRA rate loans from the PWLB, taking advantage of the 'HRA Certainty Rate' discount of 0.6%. A £5 million loan for six years was taken out on 7 February 2024 at 4.14% to cover the HRA capital expenditure from 21/22 that was reliant on internal borrowing. The longer-term loans that the HRA would normally take were significantly higher than this, so loans were being kept shorted, on the expectation that they could be refinanced at maturity at lower interest rates and longer periods.

PWLB rates were expected to reduce the Council's Treasury Management. Link was predicting that borrowing rates would reduce by around 1% by the end of 2025 as long as the economy continued to recover. It was noted that long range PWLB borrowing forecasts to the HRA did not drop below 3.5% which was quite some way from pre-pandemic levels.

Details of all approved borrowing for such schemes and the subsequent timing of repayment of this debt were noted in Appendix 2 to the report and also in the Financing section of the HIP in Appendix 4 to the report.

The underpinning HRA BP assumptions were set out in Appendix 1 to the report, with explanatory notes documenting all changes from the previous iteration of the HRA BP. These changes had then been applied to the HRA 50-year Plan set out in Appendix 2 to the report. A summary of the changes between the previously approved iteration of the HRA BP and the revised current year plan were set out in Appendix 3 to the report.

A 10-year HIP was adopted in the December 2020 Cabinet Report to enable the Climate Emergency and Fire Safety works to be completed and enable the HRA BP to remain financially viable as a result of phasing the expenditure across a longer period. The new HIP was noted in Appendix 4 to the report and contained total costs amounting to £113.6m, the following costs were split over a 10-year period:

- £32.759m Stock Condition Survey Works;
- £32.045m Climate Emergency works associated with the Council declaring a Climate Emergency;
- £43.8m required for Fire Safety works in line with Fire Risk Assessments resulting from the Grenfell Tragedy and for the removal of Cladding; and
- £5m Decarbonisation Grant funded works in line with central government partnership schemes.

The Council's housing construction and acquisition plans were also shown in the HIP and total £130m over the 10-year plan. Separate reports had been presented to Cabinet for each scheme accompanied by a full financial appraisal.

The financing of the development projects in the HIP were also noted in Appendix 4 to the report. The financing was generally funded from a mix of:

- external borrowing from PWLB;
- the HRA Capital Investment Reserve;
- Right to Buy (RTB) receipts from the sale of council houses;
- Homes England Capital Grant;
- other Grants; and
- Capital Receipts from Affordable Homes Shared Ownership sales.

The HIP also contained the planned financing for the HRA's capital major improvement and renewal works to the Council's housing stock, these works were mainly funded by the Major Repairs Reserve (MRR) which was a ring-fenced account within the HRA for the purpose of maintaining and improving existing housing stock, other methods that could be used were a mix of:

- the Major Repairs Reserve;
- Capital Grants; and
- top ups from the HRA Capital Investment Reserve.

The works funded using the MRR had been scheduled using separate stock condition surveys which were completed with a specialist housing consultancy, Michael Dyson Associates Limited and that stock data was still available and had been updated with information of component renewals in the period since the original survey.

The Council then commissioned Pennington to carry out a new 100% stock condition survey which was underway, work should be completed by May 2024.

These surveys had provided information in respect of the condition of the main elements, known as stock attributes, of HRA homes. This survey information, complementing information from our in-house team of surveyors, enabled a comprehensive picture of the current state of, and consequently the future investment needs, of a range of stock attributes such as kitchens, bathrooms, roof coverings, windows, doors and rainwater goods.

The surveys undertaken to date allowed the Council to fix a baseline position for the entire HRA stock which, in turn, allowed for the maintenance needs to be costed for the lifetime of the revised HRA BP. This baseline would continue to be refined in future years through a combination of in-house surveying and data analysis and had been updated to factor in the Climate Change and Fire Safety works. The existing 2024/25 HIP budget allocation would be directed to meet the most pressing needs, with a full revision of the profile of the future HIP to take place next financial year, to ensure that the properties with the poorest condition attributes were remedied as quickly as possible, and a tailored programme was put in place to replace items on a timely basis.

The balance of the MRR was increased annually by the amount of the annual depreciation charge to the HRA stock, which for 2024/25 was an estimated £6.9m. Based on current projections and the large financial strain on the HRA BP to deliver stock condition works, climate change works noted in Appendix 2 to the report, the MRR balance was expected to drop as low as £1.2m by 2030/31. It would however remain sufficient to fund the required level of improvements necessary.

The HRA Housing stock itself was re-valued annually and further confidence in the viability of the HRA BP could be derived from the current valuation noted in Appendix 5 to the report of £455m based on the Existing Use Valuation methodology for social housing or £1.104bn based on an unrestricted use valuation as of 31 March 2023. These valuations were significantly higher than the peak projected total borrowing of £308.6m in 2028/29 resulting from a combination of the £136.2m self-financing debt and additional £172.4m debt resulting from further borrowing to finance housing acquisition schemes. The additional housing acquisition debt was fully serviced from the rents received from the new dwellings.

A number of housing acquisitions, development schemes and land acquisitions had been approved as noted in the HIP at Appendix 4 to the report, some of which would be funded using borrowing from the PWLB to ensure that sufficient balances remained in the MRR and CIR. There were two historical material land purchases contained within the HIP which were yet to have the development plans approved. It was expected that these sites would warrant separate Cabinet approval with the Housing Strategy and Development Team working on the optimum development plan to ensure that these schemes were financially beneficial to the HRA.

The cost of carrying these land acquisitions was one of the negative contributing factors to the HRA BP’s reducing CIR and MRR balances up to 2025/26. It was expected that once the sites had been developed the rental income would improve the long-term projections for the HRA BP significantly and was likely to improve the capability to repay more of the Self-Financing Debts.

Nevertheless, the short term negative financial impact on the HRA was material and should be noted where large parcels of land were purchased especially when there was a significant time lag between purchase and sales or occupation of homes taking place to generate rental income.

Alternative delivery models were also being explored that might enable the land to be developed outside the limited capacity of the HRA BP or in partnership with other entities.

The ongoing construction and acquisition projects for new homes aimed to offset the projected reduction in the HRA stock resulting from continuation of Right to Buy sales at current levels. The table below showed the anticipated total stock changes as at 2072/73 including potential additional dwelling acquisitions and developments being explored as part of the Council's ambitious housing development plan:

Term	Approved New Build Homes in the HIP & BP	Buy Back of Ex Council Homes	Right to Buy Sales & other Stock Loss	Net HRA stock reduction
2023/24 to 2072/73	+108*	+453	- 1617	-1056

* Assumes all ongoing and previously approved plans are maintained.

The model above demonstrated that even with the potential 561 additional dwellings, the net HRA stock reduction was still 886 dwellings in deficit over the 50-year plan. To negate the losses from Right to Buy an additional 1056 dwellings would need to be acquired.

The Council entered the Right to Buy Capital Receipts Pooling arrangement with MCHLG in 2012 in line with HRA Self Financing legislation. As part of the agreement the Council was only able to retain a predetermined % of the Right to Buy Capital Receipts which was how the Council re-acquired replacement housing stock lost through Right to Buy. The level of an authority's retainable Right to Buy receipts in any year also known as 1-4-1 Capital Receipts was the total amount of its Right to Buy Sales receipts it could keep to buy replacement housing stock.

An extract of the Council's receipts retained in 2022/23 were noted in the report to demonstrate that, these receipts were not adequate to enable the purchase of replacement housing at the rate it was lost, and a table was included in section 1.49 of the report.

From 1 April 2021 the Ministry of Housing, Communities and Local Government (MHCLG) changed the rules in the Right to Buy (RTB) Pooling Receipts Retention Agreements between the Secretary of State and authorities under section 11(6) of the Local Government Act 2003 to enable them to retain increased RTB receipts and made amendments to the Local Authorities (Capital Finance and Accounting) Regulations 2003 that came into force on 30 June 2021.

A summary of the changes affecting the HRA BP were:

- The time frame local authorities had to spend new and existing RTB receipts before they breached the deadline of having to be returned to Central Government had been extended from three years to five years on the understanding this would make it easier for local authorities to undertake longer-term planning.
- The percentage cost of a new home that local authorities could fund using RTB receipts was also increased from 30% to 40% to make it

easier for authorities to fund replacement homes using RTB receipts, as well as making it easier to build homes for social rent.
- Authorities could use receipts to supply shared ownership and First Homes, as well as housing at affordable and social rent, to help build the types of home most needed in their communities.

The Council's Policy was to spend the 1-4-1 capital receipts in line with the new 40% rule within the five-year deadline on housing acquisition and development schemes as the RTB pooling rules would allow. Prior to this policy change the Council managed to meet the deadlines associated with the three-year rule. Appendix 4 to the report showed that the balance of any remaining receipts in the five-year cycle would be used to support housing construction/acquisitions within the plan.

There was no such repayment time limit on the Council's Buy Back capital receipts, the Council had ensured they were used annually in line with the 50% funding rule to reduce the cost of acquiring former Council Homes.

A number of options would continue to be considered to mitigate the reduction in HRA stock including:

- acquisition of existing homes;
- acquisition of s106 affordable homes;
- redevelopment of existing HRA homes;
- New Build on Council owned land, including garage sites;
- New Build on acquired land;
- Joint Venture options; and
- Buy Back of Social Housing.

The Council had officially been awarded "Affordable Housing Investment Partner" status from Homes England (HE) in 2020. Where available, grants would be sought to support currently approved and potential new housing schemes to lessen the impact on the HRA BP. Appendix 4 to the report showed that £0.5m further grant would be received and this was on top of the £4.6 in grants already received in the last financial year to support the funding of schemes.

Due to this new agreement with HE and to ensure that all future acquisitions remained viable, all future Affordable Housing Acquisitions linked with Homes England would need rents to be set at the national standard of affordable rents which were 80% of local market rents. Existing Affordable Housing tenants housed in the HRA's current affordable schemes would continue to pay the historic "Warwick Affordable" rents for the remainder of their tenancy which were charged at a mid-point between Local Market Rent and Social Rent to buffer the impact of this change. This policy change was approved in the HRA Rent Setting report in February 2024 and was assumed in the HRA BP projections.

As part of the HE capital grant conditions, the Council had a new legal responsibility to maintain a recycled capital grant register in the case that the HRA ever disposed of any land or dwellings which were funded using HE Affordable Homes Grant. In the case of a RTB sale or sale of land the Council must either pay back the capital receipt to HE or recycle it and reinvest it by purchasing a replacement affordable home compliant dwelling. This register would be maintained in perpetuity for as long as the dwellings and land were held on the Council's HRA asset register. It was expected that Right to Buy sales to dwellings purchased using HE grant would only start in seven to 15 years when the new build dwellings became affordable to tenants with longer RTB discounts.

It had recently been investigated that where HE grant was used to fund an affordable housing scheme, an exemption from the RTB pooling agreement could be claimed to enable the Council to retain more of the capital receipt if RTB sales occurred on new build stock. If this was found to be an exemption that the Council could claim, it was recommended that this was implemented to improve the financial viability of the HRA PB and its ability to purchase replacement housing stock lost though RTB.

The Council and registered providers could purchase affordable, social rent and shared ownership dwellings from developers at below market value as they were subsidised by the Homes England Affordable Homes Programme 2020-2024. It was usual for a mix of social, affordable, and shared ownership dwellings to be sold in a pre-agreed mix, in line with planning regulations. This enabled the Council to increase stock numbers by enabling the dwellings to be purchased at below market value, allowing the Council's HRA to fund the purchase using the reduced levels of social and affordable rents which had to be charged to tenants residing in social and affordable dwellings.

When shared ownership dwellings were purchased as part of affordable homes acquisitions the Council's HRA had to find buyers to purchase between 10-25% of the dwelling initially and then pay a % of market rent for the remaining % of the dwelling. This initial % purchase in turn generated a capital receipt for the Council's HRA which was retained to cross subsidise the cost of the Council purchasing the dwellings in such schemes. The shared owners were then able to buy a further % of the dwelling known as "staircasing" until they owned 100% or a locally capped % of the dwelling in some circumstances. There was no requirement for the owner to purchase latter % shares, Appendix 4 to the report showed that £7.623m was anticipated from shared ownership sales in the 10-year HIP.

All shared ownership capital receipts had to be retained by the Council's HRA to ensure the HRA BP remained viable and such receipts were reinvested to reduce acquisition expenditure.

Industry experts Savills advised the negative impact of the cost-of-living crisis and Covid-19 pandemic would be felt for three to five years due to fluctuating rent inflation and increased rent arrears due to the economic uncertainty. Appendix 6 to the report showed an analysis of the changes in rent arrears from 2021/2022 to 2022/23 using an extract from the Council's Financial Statements. Net arrears had reduced by £187k. However, this had not negatively affected the bad debt provision which remained the same as last financial year.

During the Pandemic smart rent arrears software was purchased which had resulted in minimal arrears increases alongside introducing a number of approaches to reduce the levels of arrears caused by the Covid-19 pandemic. It was anticipated that this was a temporary increase in arrears would return to pre- pandemic levels in due course as the economy recovered.

The HRA BP would continue to be carefully monitored, the stock condition information maintained and improved, and an annual review of the underpinning assumptions undertaken to allow any further revisions to be reported to Cabinet as part of the HRA budget setting process. However, it should be should noted that there was still a considerable level of uncertainty in respect of the current volatile economic conditions, high inflation and the cost of living crisis, prudent assumptions had been factored into this model as noted in Appendix 1 to the report but if the economy did not recover fully in the next three to five years this could impact the BP further and might impact the HRA's ability to provide the same level of Climate Change and Stock Condition works.

In terms of alternative options, the assumptions underpinning the HRA BP could be left unchanged from those that underpinned the version approved by Cabinet in 2023. This had been rejected as it could result in the BP not reflecting the most up to date policies, strategies, and research on the conditions of the local housing and land markets. The plan would therefore not be able to deliver services in a way that was viable, maintain services and service the debts taken on by the Council.

Members could also choose to vary the assumptions within the HRA BP or agree alternative policies, service standards and investment options. If these alternative options were financially viable and deliverable, the HRA BP could be amended. However, officers considered that, given the uncertainties around what would ultimately emerge into legislation from the Housing and Planning Act, it would be prudent to retain the current assumptions and policy positions that underpinned the HRA BP at this stage.

The Overview & Scrutiny Committee did not scrutinise this report at the meeting but made comments to Cabinet. Members were keen to see maximum attendance at training sessions so asked that these, where possible, avoided holiday periods. However, to mitigate for this, the Committee requested that training sessions should be recorded (whilst also appreciating that external trainers might not be open to this request).

The Overview & Scrutiny Committee also requested that when HRA reports were to be considered in future, this should always be accompanied by a briefing to Members in advance.

The Committee intended to add this report to the Overview & Scrutiny workplan in line with dates for further training.

Councillor Wightman proposed the report as laid out.

Recommended to Council that

(1) the revised 10-year Housing Investment Plan (HIP) capital budgets noted in Appendix 4 to the report for the construction and acquisition of new Council housing and funding for major works to housing stock, be approved.

Resolved that

(1) the revised HRA BP assumptions, as set out at

Appendix 1 to the report, be approved; and

(2) the revised HRA BP projections for the 50-year period 2023/24 to 2072/73, as set out at Appendix 2 to the report, be approved.

(The Portfolio Holder for this item was Councillor Wightman)
Forward Plan Reference 1,430

(The meeting ended at 6.56pm)

CHAIR
10 April 2024