Agenda Item No 6
Cabinet
6 March 2024

Title: Housing Revenue Account Business Plan Review 2024
Lead Officer: Lisa Barker/ Emma Leeming
Portfolio Holder: Councillor Wightman
Wards of the District directly affected: All

Approvals required	**Date**	**Name**
Portfolio Holder		Councillor Wightman
Finance	15/02/2024	Emma Leeming/Steven Leathley
Legal Services		N/A
Chief Executive		Chris Elliot
Director of Climate Change		Dave Barber
Head of Service(s)	14/02/24	Lisa Barker
Section 151 Officer	14/02/24	Andrew Rollins
Monitoring Officer		Graham Leach
Leadership Co-ordination Group		
Final decision by this Committee or rec to another Cttee / Council?	No Recommendation to: Council due to Budget Values	
Contrary to Policy / Budget framework?	No	
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	No	
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	Yes, partially Budget Setting Reports presented to February 2024 Cabinet	
Accessibility Checked?	Yes	

Summary

The Housing Revenue Account Business Plan (HRA BP) is reviewed annually and updated to reflect changes in legislation, the housing market and business assumptions.

The Council must present a 30-year HRA BP as a minimum but has adopted a 50-year HRA BP which must 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.

Recommendation(s)

(1) That the Cabinet approves the revised HRA BP assumptions, as set out at Appendix 1,

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

(3) That Cabinet approve the revised 10 year Housing Investment Plan (HIP) capital budgets noted in appendix 4 for the construction and acquisition of new Council housing and funding for major works to housing stock.

1 Background/Information

1.1 The Housing Revenue Account (HRA) is the financial account used to record expenditure and income concerned with running the council's housing stock and closely related services or facilities. It is a ring-fenced account and can only be used to provide services to, or for the benefit of, Council housing tenants. The HRA BP is a key strategic document which sets out the Council's income and expenditure plans for delivering Council Housing Services.

1.2 The HRA BP is reviewed on a regular basis and the underpinning assumptions will require further annual revisions. Without regular reviews, the viability of the BP would be placed at risk and could result in the Council needing to curtail its ambitions. The proposals in this BP will allow for future policy changes, and their financial implications, to be managed within the existing plan, and for investment decisions to be made regarding the existing housing stock and future construction, acquisition, and service projects.

1.3 In April 2012 the national Housing Revenue Account Subsidy System (HRASS) was replaced and Council's operating a HRA were required to do so on a 'self-financing' basis. This required each such council to make a payment (and a few to receive a payment) to Government to secure release from the HRASS, each individually calculated and based on an assessment of the assumed payments that would otherwise have been made into the HRASS had it continued to operate for a further 30 years. In WDC's case this required a one-off payment of £136.2m which was loan financed using a mix of 40-50 years Public Works Loan Board Maturity Loans meaning the Interest of £4.765m would be serviced annually for 40-50 years until the £136.2m capital balance would need to be repaid.

1.4 On 6th March 2012 Cabinet approved a HRA BP for the period 2012/13 – 2061/62 which, based on the assumptions made at the time, ensured the Council would have a viable plan that provided for the £136.2 Self Financing loan to be repaid under the terms arranged, for the investment and management needs of the housing stock to be met and which provided financial headroom, through the accumulation of revenue surpluses. The historic 2012 plan was for the HRA BP to repay the self-financing debt repayments over a phased 10-year period from 2051/52 to 2061/62.

1.5 A revised HRA BP was approved in December 2020 Cabinet which changed the repayment plan for the £136.2m debt and instead a change of direction was taken with a new plan to refinance the loan capital repayment and repay them at a later point in time. As a result of this change the 40-50 Year Maturity Loan Interest payment will continue to be facilitated until 2051/52-2061/62 with a view of the capital repayments being re-financed in line with specialist treasury advice at that point in time.

1.6 The HRA Borrowing Cap was removed on 30th October 2018 resulting in greater flexibility for the Council to borrow monies (in full or part) to purchase and/or develop housing alongside utilising other funding sources, including reserves.

1.7 Where available, Grants will be actively sought in line with the Council's Affordable Housing Investment Partner Status with Homes England to support currently approved and future housing schemes to lessen the financial impact on the HRA BP.

1.8 Development and land purchase schemes approved in separate Cabinet and Council meetings since the HRA BP was last presented in March 2023 have been incorporated into the overall financial assumptions.

1.9 The Council declared a climate emergency in 2019. This declaration acted as a catalyst for change in the council and led to the development of a Climate Change Action Programme which has a target of a Net Zero Carbon Council 2025.

1.10 The Climate declaration impacts the HRA BP as the Councils Housing Stock needs to be decarbonised which in turn has material cost implications. Where Grant is available, it has been applied for to reduce the costs of these decarbonisation schemes and the forecast budgets can been viewed in Appendix 4 - Housing Investment Plan.

1.11 The budgets for key activities such as the Fire Safety and Climate Change works are listed in the HIP in Appendix 4.

1.12 After a short consultation, in the Autumn Statement on 17th November 2022 the Chancellor of the Exchequer announced that a one year 7% Rent Cap would be applied in the place of the National Rent Policy, using a Direction to the Regulator of Social Housing and advised this would support people in Social & Affordable Housing in England with the cost of living crisis by limiting the increase in their rents. However, on 4th January 2024, it was announced this would revert to the National Rent Policy (CPI)+1% for Social and Affordable Housing, meaning rents will increase to 7.7% from April 2024.

1.13 Shared ownership rents are currently increased once a year by the Retail Prices Index (RPI)+0.5%, meaning the total rent increase from April 2024 will be 5.8%. However, the government recognises that RPI is now an outdated measure of inflation, the government is committed to phasing out of usage by the end of the decade.

1.14 On 12th October 2023 it was announced, rents for new shared owners can instead be increased once a year by no more than the Consumer Prices Index (CPI)+1% meaning a total increase of 7.7% from April 2024. This reform brings shared ownership rents into line with the limit that normally applies to annual rent increases in other forms of social housing.

1.15 The Council will continue to use lease agreements based on the Homes England template lease for all new shared ownership tenancies which will be increased annually by (CPI)+1%, existing shared ownerships will remain (RPI)+0.5%.

1.16 Many of the HRA's Repairs & Maintenance and Major Capital Works Contracts are linked with annual inflation linked to Retail Price Indexation (RPI) which has meant that the budgets for these works have had to be inflated in line with 10-14% inflation which has been added to this HRA BP and has placed extra unexpected strain on the business model.

1.17 In 2023 the war in Ukraine and Costs of Living Crisis caused utility costs to also increase by huge and unexpected amounts. The Council sources its gas and electricity from a commercial energy broker ESPO to ensure best value is achieved. Energy price caps were implemented by central government to protect consumers and businesses from these extreme price rises. Because ESPO brokers commercial contracts for the Council, the caps are a lot higher than the actual usage so no benefit can be applied to the HRA budgets.

1.18 The Councils electricity contract was renewed in October 2023 and the gas contract is to be renewed in April 2024. At the end of 2023 we began to see prices stabilise and, in some cases, slightly decrease. As part of these contract renewals, it has been predicted that Gas will increase by 15% in the first 6 months of 2024 and then reduce by 25% in the remaining 6 months of 2024. Electricity is predicted to reduce by 15% in 2024, meaning gas and electricity remains high for 2024/25.

1.19 Reasons for the Recommendations

1.20 The HRA BP must remain robust, resilient, and financially viable. Revising the HRA BP annually ensures the Council's HRA is 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 see paragraph 1.3-1.5.

1.21 The HRA details 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 have 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 ensures the long-term planning of these costs, schedules of works and developments to ensure there are sufficient resources in place.

1.22 As shown in Appendix 2, the balance of the HRA CIR at the end of the current 2023/24 financial year is expected to be £10.2m and, based on current projections, will reduce annually until 2032/33. This will start to increase again when the model forecasts income, in particular that linked to an increase in our housing stock, comes on stream following upfront costs being incurred during the purchase and development phase.

1.23 The original self-financing plan was to service the PWLB Maturity Loan interest cost for 40 years and then begin paying 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 & MRR.

1.24 By 2061/62 there is 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 has 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 is 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 have 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 is 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 is made.

1.25 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 remains viable when continuing to fund the annual £4.765m in self-financing interest payments for the 50-year plan.

1.26 The revised HRA BP will 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.

1.27 The removal of the HRA Borrowing cap on the 30th 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".

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

1.29 However, since 2020 the interest rate at which the Council can borrow for HRA Capital Works has increased significantly, in line with inflation and overall interest rate movements. The Council is 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 earned less from investing those funds in the short to medium term.

1.30 The Council's overall levels of investments have now reduced to a level where the 'internal borrowing' that the HRA has taken from the General Fund can no longer be maintained, and the Council has begun to externalize 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 6 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 are significantly higher than this, so loans are being kept shorted, on the expectation that they can be refinanced at maturity at lower interest rates and longer periods.

1.31 PWLB rates are expected to reduce the Councils Treasury Management. Link are predicting that borrowing rates will reduce by around 1% by the end of 2025 as long as the economy continues to recover. It is noted that long range PWLB borrowing forecasts to the HRA do not drop below 3.5% which is quite some way from pre-pandemic levels.

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

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

1.34 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 enables the HRA BP to remain financially viable as a result of phasing the expenditure across a longer period. The new HIP is noted in Appendix 4 and contains total costs amounting to £113.6m, the following costs are 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.
- £5m Decarbonisation Grant funded works in line with central government partnership schemes.

1.35 The Councils housing construction and acquisition plans are also shown in the HIP and total £130m over the 10-year plan. Separate reports have been presented to Cabinet for each scheme accompanied by a full financial appraisal. Where there are reports being presented to Cabinet for approval in March

Cabinet the costs have been included in the HIP to ensure budget is consistent between all reports being considered.

1.36 The Financing of the development projects in the HIP are also noted in Appendix 4. The financing is 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
- Capital Receipts from Affordable Homes Shared Ownership sales

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

- The Major Repairs Reserve
- Capital Grants
- Top ups from the HRA Capital Investment Reserve

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

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

1.40 These surveys have 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, enables 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.

1.41 The surveys undertaken to date allow the Council to fix a baseline position for the entire HRA stock which, in turn, allows for the maintenance needs to be costed for the lifetime of the revised HRA BP. This baseline will continue to be refined in future years through a combination of in-house surveying and data analysis and has been updated to factor in the Climate Change and Fire Safety works. The existing 2024/25 HIP budget allocation will 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 are remedied as quickly as possible, and a tailored programme is put in place to replace items on a timely basis.

1.42 The balance of the MRR is increased annually by the amount of the annual depreciation charge to the HRA stock, which for 2024/25 is 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, the MRR balance is expected to drop as low as £1.2m by 2030/31. It will however remain sufficient to fund the required level of improvements necessary.

1.43 The HRA Housing stock itself is re-valued annually and further confidence in the viability of the HRA BP can be derived from the current valuation noted in Appendix 5 of £455m based on the Existing Use Valuation methodology for social housing or £1.104bn based on an unrestricted use valuation as at 31 March 2023. These valuations are 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 is fully serviced from the rents received from the new dwellings.

1.44 A number of housing acquisitions, development schemes and land acquisitions have been approved as noted in the HIP at appendix 4, some of which will be funded using borrowing from the PWLB to ensure that sufficient balances remain in the MRR and CIR. There are two historical material Land Purchases contained within the HIP which are yet to have the development plans approved. It is expected that these sites will warrant separate Cabinet approval with the Housing Strategy and Development Team working on the optimum development plan to ensure that these schemes are financially beneficial to the HRA. The cost of carrying these land acquisitions is one of the negative contributing factors to the HRA BP's reducing CIR and MRR balances up to 2025/26. It is expected that once the sites have been developed the rental income will improve the long-term projections for the HRA BP significantly and is likely to improve the capability to repay more of the Self-Financing Debts. Nevertheless, the short term negative financial impact on the HRA is material and must be noted where large parcels of land are purchased especially when there is a significant time lag between purchase and sales or occupation of homes taking place to generate rental income. Alternative delivery models are also being explored that may enable the land to be developed outside the limited capacity of the HRA BP or in partnership with other entities.

1.45 The ongoing construction and acquisition projects for new homes aim to offset the projected reduction in the HRA stock resulting from continuation of Right to Buy sales at current levels. The below table shows the anticipated total stock changes as at 2072/73 including potential additional dwelling acquisitions and developments being explored as part of the Councils 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.

1.46 The model above demonstrates that even with the potential 561 additional dwellings the net HRA stock reduction is 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.

1.47 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 is only able to retain a predetermined % of the Right to Buy Capital Receipts which is how the Council re-acquires 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 is the total amount of its Right to Buy Sales receipts it can keep to buy replacement housing stock.

1.48 An extract of the Councils receipts retained in 2022/23 are noted below to demonstrate that in reality, these receipts are not adequate to enable the purchase of replacement housing at the rate it is lost.

RTB Pooling Summary	**£**	**%**
WDC HRA Transaction Cost	40,300	1
WDC HRA Debt Contribution	870,590	23
WDC General Fund Share (any purpose)	413,625	11
WDC Buy Back Allowance	102,907	3
WDC 1-4-1 Allowance	2,441,248	63
Cumulative Receipt	**3,868,670**	**100**

1.49

31 Properties Sold - Amount of buy backs and 1-4-1 receipts to purchase replacements per property	82,070

1.50 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 are:

- The time frame local authorities must spend new and existing RTB receipts before they breach the deadline of having to be returned to Central Government has been extended from 3 years to 5 years on the understanding this will make it easier for local authorities to undertake longer-term planning.
- The percentage cost of a new home that local authorities can 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 can 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.

1.51 The Councils Policy is to spend the 1-4-1 capital receipts in line with the new 40% rule within the 5-year deadline on housing acquisition and development schemes as the RTB pooling rules will allow. Prior to this policy change the Council always managed to meet the deadlines associated with the 3-year rule. Appendix 4 shows that the balance of any remaining receipts in the 5-year cycle will be used to support housing construction/acquisitions within the plan.

1.52 There is no such repayment time limit on the councils Buy Back capital receipts, the Council has ensured they are used annually in line with the 50% funding rule to reduce the cost of acquiring former Council Homes.

1.53 A number of options will 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
- Buy Back of Social Housing

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

1.55 Due to this new agreement with HE and to ensure that all future acquisitions remain viable, all future Affordable Housing Acquisitions linked with Homes England will need rents to be set at the national standard of Affordable rents which are 80% of local market rents. Existing Affordable Housing tenants housed in the HRA's current affordable schemes will continue to pay the historic "Warwick Affordable" rents for the remainder of their tenancy which are 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 is assumed in the HRA BP projections.

1.56 As part of the HE capital grant conditions, the Council has a new legal responsibility to maintain a recycled capital grant register in the case that the HRA ever disposes 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 will be maintained in perpetuity for as long as the dwellings and land are held on the Council's HRA asset register. It is expected that Right to Buy sales to dwellings purchased using HE grant will only start in 7-15 years when the new build dwellings become affordable to tenants with longer RTB discounts.

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

1.58 The Council and registered providers can purchase affordable, social rent and shared ownership dwellings from developers at below market value as they are subsidised by the Homes England Affordable Homes Programme 2020-2024. It is 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 enables 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 must be charged to tenants residing in social and affordable dwellings.

1.59 When shared ownership dwellings are purchased as part of affordable homes acquisitions the Council's HRA must 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 generates a capital receipt for the Council's HRA which is retained to cross subsidise the cost of the Council purchasing the dwellings in such schemes. The shared owners are then able to buy a further % of the dwelling known as "staircasing" until they own 100% or a locally capped % of the dwelling in some circumstances. There is no requirement for the owner to purchase latter % shares, Appendix 4 shows that £7.623m is anticipated from shared ownership sales in the 10-year HIP.

1.60 All shared ownership capital receipts must be retained by the Council's HRA to ensure the HRA BP remains viable and such receipts are reinvested to reduce acquisition expenditure.

1.61 Industry experts Savills advised the negative impact of the cost of living crisis and Covid-19 pandemic will be felt for 3-5 years due to fluctuating rent inflation and increased rent arrears due to the economic uncertainty. Appendix 6 shows 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 have reduced by £187k, however, this has not negatively affected the bad debt provision which remains the same as last financial year.

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

1.63 The HRA BP will 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, members will note that there is still a considerable level of uncertainty in respect of the current volatile economic conditions, high inflation and the costs of living crisis, prudent assumptions have been factored into this model as noted in Appendix 1 but if the economy does not recover fully in the next 3-5 years this could impact the BP further and may impact the HRA's ability to provide the same level of Climate Change and Stock Condition works.

2 Alternative Options

2.1 The assumptions underpinning the HRA BP could be left unchanged from those that underpinned the version approved by Cabinet in 2023. This has been rejected as it would 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 is viable, maintain services and service the debts taken on by the Council.

2.2 Members could 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 consider that, given the uncertainties around what will ultimately emerge into legislation from the Housing and Planning Act, it would be prudent to retain the current assumptions and policy positions that underpin the HRA BP at this stage.

3 Legal Implications

3.1 There are no Human Rights Act implications relating to this Business Plan. Legal implications and the associated financial cost of compliance to national housing standards and Government rent policy have been incorporated into the HRA BP.

4 Financial

4.1 Effective monitoring and forecasting of expenditure and income is a fundamental part of the proper financial management of the Council, enshrined within the Code of Financial Practice and the monthly Budget Review process.

4.2 Under the 'Self Financing' regime the Council took on £136.2m of debt in return for the ability to locally determine decisions on future investment in the housing stock, management services and building the financial capacity to provide new homes. It is essential to project income and expenditure over the full 50-year plan rather than the 5-year period used for the Medium-Term Financial Strategy, although actual investment programmes will continue to be managed and monitored on shorter periods.

4.3 A series of informed assumptions underpin the income and expenditure projections and changes to these provide the basis for revisions to the HRA BP. For example, at the 31st March 2023 the Council owned approximately 5,543 socially rented, affordable rent homes and shared ownership properties as shown in appendix 5. Sale of properties impacts on both income and expenditure – there is a marginal reduction in maintenance and improvement costs, which fluctuate through the plan period, and a more significant one in terms of lost rental income which is fixed throughout the plan period and projected to increase annually. It has been assumed that the number of RTB sales will stay at reduced levels of 28 units for the next 2 years, 30 units for 4 years after that. Then continue as per current levels at approximately 32 units per year. Sale levels are influenced by the discounts available to tenants, the availability of mortgage finance and the prevailing market prices of homes in the district.

4.4 The Housing (Right to Buy) (Limit on Discount) (England) Order 2014 (the Order) provides for an annual change to the maximum Right to Buy discounts. This change is calculated in line with the percentage change in the Consumer Prices Index (CPI) published by the Office of National Statistics (ONS) from the September before the previous year to the September of the previous year. This increase takes effect on 6 April each year.

4.5 The Department indicated it would inform Right to Buy landlords in January each year of the new maximum Right to Buy discounts for the following financial year, based on the relevant September CPI figure. In respect of the financial year 2023/24, the relevant September 2023 CPI figure is 6.7 per cent and the new maximum discounts for 2024/25 will be £102,400. The revised HRA BP set out at Appendix 2 shows that over the 50-year business plan the Council will suffer a net loss of properties through RTB even if the potential new build numbers, referred to in paragraph 1.46 and themselves dependent on a range of financial viability considerations and the availability of suitable development sites, are achieved. However, the viability of the HRA BP is not compromised by this potential net reduction in stock levels and, as options to replace the RTB losses are worked up, there will be a further revision to the BP.

4.6 The MRR is used to fund capital repairs of the HRA stock. The contributions to the reserve are based on depreciation calculations which fluctuate depending on overall HRA stock component values.

4.7 The HRA BP presents the financial position as at the date reported to Cabinet and includes all pre-approved housing acquisitions and development schemes to date.

5 Corporate Strategy

5.1 Warwick District Council has adopted a Corporate Strategy which sets three strategic aims for the organisation:

5.2 Delivering valued, sustainable services **–** Better return/ use of our assets. Full cost accounting, continued cost management. Seek best value for money, ensuring that the HRA is able to set a balanced budget whilst maintaining service provision.

5.3 Low cost, low carbon energy across the district - Where possible we have reduced the charges of energy to our tenants by spreading increases over an average of 3 years. In 2024/25 we also increased charges based on the actual cost on a property-by-property basis to keep increases to a minimum.

5.4 Creating vibrant, safe and healthy communities of the future - The HRA budgets provide the necessary resources to enable tenants' needs to be met and support improvement of services relating to Council Housing Stock. Setting sufficient budgets and planning for the future ensures the business plan remains viable to meet service provision and provide a safe environment for residents.

6 Environmental/Climate Change Implications

6.1 As part of the HRA repairs, maintenance, replacement and investment work, consideration is given to the environmental impact. The Council has a work programme for decarbonising and increasing the energy efficiency of the housing stock in response to the Climate Emergency declared by the Council. The Council is focused on delivering Council dwellings and services which enable them to meet their agreed strategic outcomes.

7 Analysis of the effects on Equality

7.1 Tenants of Council housing include some of the most marginalised and disadvantaged households within our communities. Providing tenants with a home that is built and maintained to a decent standard, is safe and energy efficient will improve the quality of life of occupants, enabling their home to be a springboard to achieve better health, education, and life outcomes.

8 Data Protection

9 Not Relevant **Health and Wellbeing**

9.1 See Paragraph 7.1

10 Risk Assessment

10.1 The HRA BP will continue to be regularly monitored and an annual update provided to Cabinet to ensure the financial model remains robust.

10.2 Inflation continues to be high due to the ongoing War in Ukraine and the Cost-of-Living Crisis still impacting on UK's economy. Prior to these fluctuations an expectation of CPI and RPI inflation was 1.5%-2.00% annually. In comparison CPI reached 11.1% and RPI 14.2% in 2022/23. Current inflation as per the most recent ONS published data is 4% as at Dec 2023, this is still higher than pre-pandemic levels.

10.3 Universal Credit mass migration is currently starting across the district with a view that all those on legacy benefits will need to apply by May 2024, when any current legacy benefits will end. There is a risk this mass roll out will affect arrears as those that don't apply or may not how to, could effectively have no income.

10.4 The bad debt provision within the HR BP will remain at 1.6%. This will be assessed regularly.

10.5 In respect to future borrowing to facilitate house building as per the October 2018 removal of the HRA Borrowing Cap there are risks relating to the % rate that the Council is able to borrow and the impact to the associated interest that must be paid alongside the repayment of the loan principal. This issue will be kept under close watch and Link Treasury Management will be consulted regularly for forecasts.

The interest rate charged by the PWLB fluctuates daily. If borrowing is assessed as the preferred method of funding each scheme will be evaluated on viability including the cost of borrowing and if PWLB rates are deemed to be too high alternative sources of borrowing from other reputable organisations will need to be considered.

11 Consultation

11.1 It is recommended the review of the HRA BP and HRA HIP are approved to enable the budgets to be revised accordingly.

11.2 It is recommended the HRA BP continues to be revised annually as a minimum.

Background papers:

- HRA Business Plan – Cabinet December 2023
- HRA Budget and Rent Setting Report – Cabinet – February 2024

Supporting documents:

- Appendix 1 HRA Business Plan Assumptions
- Appendix 2 HRA Business Plan Projections
- Appendix 3 HRA Business Plan Variances
- Appendix 4 Housing Investment Plan (HIP)
- Appendix 5 HRA Stock Valuations
- Appendix 6 HRA Rent Arrears and Bad Debts