Agenda Item No 11
Cabinet
8 March 2023

Title: Housing Revenue Account Business Plan Review 2023
Lead Officer: Lisa Barker/ Victoria Bamber
Portfolio Holder: Councillor Jan Matecki
Wards of the District directly affected: All

Approvals required	Date	Name
Portfolio Holder		Councillor Jan Matecki
Finance	23/02/2023	Victoria Bamber
Legal Services		N/A
Chief Executive	16/02/2023	Chris Elliot
Director of Climate Change	16/02/2023	Dave Barber
Head of Service(s)	20/02/2023	Lisa Barker
Section 151 Officer	23/02/2023	Andrew Rollins
Monitoring Officer	16/02/2023	Andrew Jones
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 2023 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, and the revised HRA BP projections for the 50-year period 2022/23 to 2071/72, as set out at Appendix 2.

(2) 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, along with the associated capital financing funding plan which is also incorporated into the figures presented in Appendix 2.

1 Background/Information

1.1 The Housing Revenue Account (HRA) is the financial account used to manage the Council's activities as a landlord. It is a ring-fenced account and can only be used to provide services to 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 Housing has moved up the national and local political agenda over the last decade. National issues around the affordability of home ownership, high costs of private renting and availability of genuinely affordable homes have driven this. Locally increases in homelessness including the most visible form, rough sleeping, the tragedy surrounding the Grenfell Tower fire, ambitions to deliver new Council homes and the Climate Emergency being declared by the Council in 2019 have shaped the debate more recently alongside the uncertain impacts of the current Political and Economic Instability, including the effects of Brexit, the Covid-19 pandemic alongside the Cost of Living Crisis and the impact of the war in Ukraine.

1.3 The HRA BP will continue to be reviewed on a regular basis and the underpinning assumptions will require further annual revisions. Without the proposals contained within the report being reviewed regularly the viability of the BP is at risk and will 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.

1.4 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 year Public Works Loan Board Maturity Loans meaning the Interest of £4.765m would be serviced annually for 40-50 years until the £136.2m captial balance would need to be repaid.

1.5 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.

1.6 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.

1.7 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.

1.8 In line with the Council's announcement of the Climate Emergency the Housing Improvement Plan (HIP), after being extended from 5 years to 10 years at the December 2020 Cabinet, will continue to be presented as a 10-year plan to enable the HRA BP to fund the increased costs associated with these works.

1.9 Where available Grant 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.

1.10 Development and land purchase schemes approved in separate Cabinet and Council meetings since the HRA BP was last presented in December 2021 have been incorporated into the overall financial assumptions.

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

1.12 This 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.

1.13 A new Housing Fire Safety & Climate Change Team was assembled in 2021/22 to deliver this target with the aims of tackling energy inefficiency through innovation and investment, delivering an improved standard of living in our homes, and decarbonising the built environment and removing the use of fossil fuels in our homes as fast as practicable in accordance with Net Carbon Zero targets.

1.14 The budgets for the Fire Safety and Climate Change works are listed in the HIP in Appendix 4. All costs linked with recent Cabinet reports relating to Fire Safety and Climate Change works presented to February 2023 cabinet have been incorporated into either appendix 4 HIP if capital in nature or into appendix 2 HRA BP Projections if revenue in nature.

1.15 On the 17th November 2022 the Autumn Statement was announced by the Chancellor of Exchequer Jeremy Hunt stating that after a short period of consultation, all social and affordable rent increases in England will be capped at 7% as of April 2023 for a period of 12 months to combat the cost of living crisis and in response to "unprecedent global headwinds" the country is facing.

1.16 The government regulates how much social housing rents can increase each year. Currently Social and Affordable Rents are set at up to the consumer price index (CPI) rate plus 1%. If Rent increases had been allowed at this rate then it would have meant potential increases of 11% for the Social and affordable rent dwellings. Shared ownership properties rents are inflated annually by retail price index (RPI) +0.5% which would have meant a rent increase of over 14%.

1.17 The Council calculated the estimated HRA revenue rent loss caused by this 7% rent cap in comparison to the current CPI and RPI models would have been £1.2m for the 2023/24 Financial year. However it was unlikely that such a huge rent increase would have been implemented due to affordability for the tenants. It should also be noted that the consultation did also propose rent increases at 5% and 3%. If 3% had been chosen, the rent loss could have been as high as £2.3m.

1.18 In turn HRA operating costs have inflated at a similar rate so any rent cap below inflation means there is a net loss of income when costs are increasing but rents are not matching the same level of increases. It is very uncertain if there will be futher rent caps enforced by the Government after this 1 year period.

1.19 The Current UK Ecomomic uncertainty, turbulent economy and Cost of Living Crisis has caused inflation to sky rocket. Historically RPI% would hover around 1.5-2% but in October 2022 it increased to a high of 14.2%. Inflation at this rate has not been seen since the 1970/80's.

1.20 Many of the HRA's Repairs & Maintenance and Major Captial 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.

1.21 The War in Ukraine has caused utility costs to also increase by huge and unexpected amounts. The Councils sources its gas and electricity from a commercial energy broker called ESPO to ensure best value is achieved. Energy price caps were implemented by central government to protect consumers and businesses from these extrememe price rises but 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.

1.22 In real terms the increases have meant that from October 2022 the electricity cost has doubled, and from April 2023 the gas cost has quadrupled. Initially further increases were expected on electricity in October 2023 of another 30% increase on electricity and in April 2024 a further 30% increase on gas on top of the previous increases.

1.23 In real terms this means that in the 2023/24 financial year the forecast total cost increase on gas and electricity is £440k.

1.24 **Reasons for the Recommendations**

1.25 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 deliver its ambitious development programme, provide much needed social and affordable housing in the District and facilitate the re-financing of the £136.2m 2012 self-financing loan which was approved in the 11th January 2012 Executive Meeting. The plan to refinance the self-financing debt results in either the partial or full refinancing of the £136.2m loan for a longer period of time.

1.26 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 HRA 10-year HIP ensures the long-term planning of these costs, schedules of works and developments to ensure there are sufficient resources in place.

1.27 The revised HRA BP provides for a minimum operational balance of £1.5m after all appropriations have been deducted. This minimum surplus is increased annually for inflation alongside ensuring a revenue surplus to be achieved annually for transfer to the HRA Capital Investment Reserve (CIR). As shown in Appendix 2, the balance of the HRA CIR at the end of the current 2022/23 financial year is expected to be £24.3m and, based on current projections, will reduce annually until 2032/33 when it 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.

1.28 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. In prior versions of the HRA BP there were sufficient balances within the CIR and Major Repairs Reserve (MRR) to facilitate the repayment of this debt, but this is no longer possible due to the strain on the model caused by the additional climate change and fire safety works alongside increased development, rent caps and high inflation.

1.29 By 2061/62 there is a forecast capacity to pay £47.1m of the debt made up of a balance of £41.3m in the CIR and £5.8m 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

1.30 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.

1.31 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.

1.32 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".

1.33 A further Central Government policy borrowing change on 12 March 2020 advised that the HRA is to be given favourable rates of financing to borrow for acquisitions or construction of Social and Affordable Housing resulting in a reduction in interest rates of 1% from 1.86% to 0.86% where the purpose was for housing related expenditure.

1.34 However, since 2020 the % interest rate at which the Council can borrow for HRA Works rocketed from 0.86% up to 6.5% in the last Quarter of 2022. Due to this the decision was taken to not take out borrowing from the PWLB at such high rates which has meant that most of the HRA Borrwing requirements for New Build aquitisions and developments as well as major capital works has not taken place but will be phased over the next few years in line with expert treasusry management advice.

1.35 PWLB rates have now started to reduce and Link Treasury Management have advised that borrowing rates are currently at 3.9% net of the Councils -0.2% PWLB certainty discount and will recuce gradually until 2026/27 to 3% and should remain at that base level for the foreseeable future as long as the enconomy continues to recover. It is noted that long range PWLB borrowing forecasts do not drop below 3% or anywhere near pre-pandemic levels.

1.36 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.

1.37 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 itteration of the HRA BP and the revised current year plan are set out in Appendix 3.

1.38 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 £114m, the following costs are split over a 10-year period:

- £32.8m Stock Condition Survey works
- £32.263m Climate Emergency works associated with the Council declaring a Climate Emergency
- £41.2m required for Fire Safety works in line with Fire Risk Assessments resulting from the Grenfell Tragedy and for the removal of Cladding.
- £7.7m Decarbonisation Grant funded works in line with central government partnership schemes

1.39 The Councils housing construction and acquisition plans are also shown in the HIP and total £119m 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 Cabient for approval in March Cabinet the costs have been included in the HIP to ensure budget is consistent between all reports being considered.

1.40 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

1.41 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 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

1.42 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.

1.43 The Council has now commissioned Penningtons to carry out a new 100% stock condition survey and that is underway, focussing first on those properties which current data suggests may not fully meet the Decent Homes standard so that a current position on compliance can be measured and rectified. That initial work should be completed by Spring of 2023. The survey will then move on to inspect all of the remaining properties and this will be in 2023 /2024.

1.44 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.

1.45 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 2023/24 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.

1.46 The balance of the MRR is increased annually by the amount of the annual depreciation charge to the HRA stock, which for 2022/23 is an estimated £6.2m. 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 £4.4m by 2024/25. It will however remain sufficient to fund the required level of improvements necessary as it will be topped-up using a contribution from the CIR which can also be used to fund the major works.

1.47 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 £430,085m based on the Existing Use Valuation methodology for social housing or £1.069bn based on an unrestricted use valuation as at 31 March 2021. These valuations are significantly higher than the peak projected total borrowing of £268.5m in 2029/30 resulting from a combination of the £136.2m self-financing debt and additional £132.3m 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.

1.48 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.

1.49 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 2071/72 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
2022/23 to 2071/72	+673*	+111	-1,670	-886

* Assumes all ongoing and previously approved plans are maintained.

1.50 The model above demonstrates that even with the potential 784 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 886 dwellings would need to be aquired.

1.51 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 meant to be how the Council re-aquires replacement housing stock which is lost through Right to Buy. The level of an authority's retainable RTB 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.

1.52 An exert of the Councils receipts retained in 2021/22 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, only the Buy Back and 1-4-1 allowances can be retained by the HRA to purchase new dwellings:

RTB Pooling Summary	£	%
WDC HRA Transaction Cost	33,800	1
WDC HRA Debt contribution	668,743	19
WDC General Fund share (any purpose)	409,530	11
WDC Buy Back allowance	96,739	3
WDC 1-4-1 allowance	1,391,547	39
Treasury share	960,966	27
Cumulative Total Receipt	**3,561,325**	**100.00**

26 Properties Sold - Amount of buy back and 1-4-1 receipts to purchase replacements per property	57,242

1.53 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 timeframe 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.

1.54 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.

1.55 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.

1.56 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

1.57 The Council was 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 £6.5m further grant will be received and this is on top of the £4.066m in grant already received in the last two financial years to support the funding of schemes.

1.58 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 2021 and is assumed in the HRA BP projections.

1.59 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.

1.60 It has recently been investigated that where HE grant is used to fund a affordable housin scheme an exemption from the RTB pooling agreement can be claimed to enable the Council to remain 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.

1.61 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 preagreed 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 to enable 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.

1.62 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 £7.570m is anticipated from shared ownership sales in the 10-year HIP.

1.63 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.

1.64 Industry experts Savills have 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 2019/20 to 2020/21 using an extract from the Council's Financial Statements. Net arrears have increased by £118k, however this has not negatively affected the bad debt provision which only changed by £9k in the last financial year.

1.65 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.

1.66 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 financial impact of Covid-19, 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 2021. 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 2022 the Council owned approximately 5,527 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 26 units for the next 3 years but will 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 maximum RTB discount that can be offered is currently increased by the CPI level from the previous September. In September 2021 this was 10.1%, therefore the maximum discount that can be given from 6th April 2023/24 is £96,100. The level of discount is typically in line with expected increases in market prices of homes in the District. If any of these factors change the assumption will require further review, hence the need for careful and continual monitoring of the HRA BP's underpinning assumptions

4.5 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 1.49 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 Business Strategy

5.1 Health, Homes, Communities - The HRA budgets provide the necessary resources to enable tenants' needs to be met and support improvement of services relating to Council Housing Stock.

5.2 Green, Clean, Safe - 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.

5.3 Infrastructure, Enterprise, Employment - Better return/use of our assets. Major works contract management. Seek best value for money. Ensuring that the HRA is able to set a balanced budget whilst maintaining service provision.

5.4 Effective Staff - In line with the recent Housing restructure in 2019/20 all staff are properly trained, all staff have the appropriate tools. All staff are engaged, empowered, and supported. The right people are in the right job with the right skills and right behaviours.

5.5 Maintain or Improve Services - The HRA Business plan budgets ensure the HRA is able to focus on customers' needs, continuously improve our processes and increase the digital provision of services.

5.6 Firm Financial Footing over the Longer Term - The HRA budgets provide the necessary resources to achieve outcomes which 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

6 Environmental/Climate Change Implications

6.1 Grant funded Climate Change works noted in the HIP are in line with the Council's policies and Climate Emergency Action Plan.

7 Analysis of the effects on Equality

7.1 None

8 Data Protection

8.1 None

9 Health and Wellbeing

9.1 None

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 Further years of rent caps enforced on the HRA dwelling rents would be damaging to the business model. After the announcement of the 7% rent Cap in the Autumn Statement it has been stated that the cap will only be enforced for one financial year. The housing sector is lobbying for a rent clawback scheme to be implemented to enable Registered Social Housing Providers to claw back the lost income in future years above the current CPI+1% and

RPI+0.5% Rent Policies in place but nothing has been confirmed at the time of writing this report.

10.3 Inflation is a lot higher than expected due to the impact of the War in Ukraine, the Cost-of-Living Crisis, Brexit and the Covid-19 pandemic has had on the UK's economy. Prior to these fluctuations an expectation of CPI and RPI inflation was 1.5%-2.00% annually prior to the pandemic occurring. In comparison CPI has reached 11.1% and RPI 14.2% in 2022/23. Industry experts are projecting that inflation will return to near 4% in March 2024 with a steady decline in rates expected however, this it is very uncertain at this point in time whether this will be achievable and realistic.

10.4 Universal Credit continues to be rolled out but has not as yet had a negative impact on the HRA Rents arrears. The initial deadline for implementation was Autumn 2018 but it is still not yet fully implemented.

10.5 The bad debt provision within the HR BP will remain at 1.8%. This will be assessed regularly.

10.6 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 Treasusry Management will be consulted regularly for forecasts.

10.7 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.

10.8 The impact of the Covid-19 Pandemic and the impact on Central and Local Government finances is expected to impact the economy for the next 3-5 years. There are several potential risks for instance regarding the Government's ability to continue to support housing development with grants from Homes England and the ability to continue to fund homelessness initiatives. Central Government's stance on these matters will have to be monitored closely as changes to current arrangements will impact this model negatively.

10.9 The UK left the European Union on the 31st January 2020 resulting in a subsequent transition period up to 31st December 2020. Although Brexit is not expected to immediately impact the BP there could be impacting circumstances that could affect the UK construction industry such as delays on imported construction supplies being received and European labour losses may result in higher construction labour costs. As these outcomes are very uncertain all housing development schemes will be re-appraised and checked for viability regularly.

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 2021
- HRA Budget and Rent Setting Report – Cabinet – February 2023

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