Wiltshire Council

Full Council

20 February 2024

Housing Revenue Account (HRA) Budget Setting 2024/25 including Dwelling Rent Setting 2024/25 and 30-Year Business Plan Review

Executive Summary

The purpose of this report is to recommend to Council the approval of the Housing Revenue Account (HRA) Business Plan, Budget and associated housing funding decisions. To enable the delivery of the Business Plan there are some specific related matters that require a formal decision and are being addressed in this report and to which a number of the recommendations relate.

One of the main decisions that the Council must consider is the level of rent increase for our Council tenants as it forms the financial envelope for the HRA Business Plan against which the costs of delivering our priorities will need to operate within.

There is a clear and ongoing need to ensure that our HRA Business Plan retains a focus on housing quality and compliance, responding to the regulatory environment in our existing homes, a commitment to decarbonise our existing homes and make best use of our stock for our most vulnerable residents. We continue to prioritise growth by delivering many new affordable homes.

As such this report updates Members on the proposed Housing Revenue Account (HRA) Annual Revenue Budget and Capital Programme for 2024/25, including the proposed Rent Setting for 2024/25. This report also provides an update on the 30-Year Business Plan.

The proposals included in this report would enable the Council to set a balanced budget for the HRA for 2024/25 which is critical to ensure a strong and effective HRA is maintained.

The base business plan model shows a sustainable long term HRA that supports the Council’s current investment plans. Repayment of existing and new borrowing is achieved over the life of the plan, and minimum balances are maintained. The plan has some resilience to economic and regulatory changes; however, this has limitations particularly in the earlier years of the plan due to the investment in the Council House Building Programme. For this reason, some scenario modelling with suggested mitigations has been undertaken as set out in the report.

This is the first standalone HRA annual budget report which will form part of the budget setting reports at Cabinet and Full Council but will remain separate from the General Fund medium-term financial strategy (MTFS) – providing a more detailed report for members with an aim of greater information and transparency.

Proposals

That Council:

a) Approve the HRA Annual Revenue Budget for 2024/25 as described in the report and Appendix 1.

b) Approve the increase of 7.7% (CPI+1%) to Dwelling Rents and Garage Rents for 2024/25

c) Approve the HRA Capital Programme for 2024/25 as described in the report and Appendix 2.

d) Note the reviewed and updated assumptions in the HRA 30-Year Business Plan as detailed in the report.

Reason for Proposals

To ensure a balanced budget (capital and revenue) for the HRA for 2024/25, and in so doing continue to provide services to tenants and investment in their homes.

To enable effective, transparent decision making and ensure sound financial management of the HRA as part of the council's overall control environment.

James Barrah
Director - Assets

Andy Brown
Deputy Chief Executive and Corporate Director of Resources

Wiltshire Council

Full Council

20 February 2024

Housing Revenue Account (HRA) Budget Setting 2024/25 including Dwelling Rent Setting 2024/25 and 30-Year Business Plan Review

Purpose of Report

1. This report updates Members on the proposed Housing Revenue Account (HRA) Annual Revenue Budget (including rent setting) and Capital Programme for 2024/25. Additionally, the report also provides an update on the 30-Year Business Plan Review.

2. The proposals included in this report would enable the Council to set a balanced budget for the HRA for 2024/25. A balanced budget is crucial for effective financial management and will allow the service to allocate resources efficiently and meet financial obligations while providing necessary services.

Relevance to the Council's Business Plan

3. The balancing of the HRA, budgeted capital programme and business plan review contribute to effective decision making and the alignment of resources and financial performance to the Council's priorities and objectives as laid down in the Business Plan. In particular the plan supports the Councils target to deliver 1,000 new affordable homes over the next 10 years.

Background

4. The HRA is a ring-fenced account that is held within the General Fund. The Council acts as the Landlord. Revenues are generated primarily from rents and other associated income and are used to cover costs associated with managing and maintaining a housing stock of approximately 5,300 properties. This includes expenses such as property maintenance, repairs, improvements, and other related services.

5. In April 2012, in accordance with the Localism Act 2011, the HRA (under the administration of Wiltshire Council) transitioned from a national subsidy system where it had to make an annual payment to Central Government to become 'self-financing'. This change allowed the Council to keep all rental income which was then used to cover the costs of managing and maintaining the housing stock, including expenses for repairs, improvements, as well as interest and debt repayments. As part of the self-financing agreement, the Government received a one-time capital payment of £118.810m from the Council.

6. To effectively utilise the newfound autonomy of the HRA under the self-financing system, a comprehensive 30-Year Business Plan (2012-2042) was implemented. This plan outlined the Council's overarching goals and objectives for the Housing Service, providing a roadmap for addressing both risks and opportunities.

7. The 30-Year Business Plan has been reviewed as part of the 2024/25 budget setting cycle and the key changes / updates to the plan are described below. A detailed report providing external assurance on our plan is attached at Appendix C. Key extracts from this document are included in this report. This report shows the key assumptions and outputs from the Council's latest HRA business plan, the changes from the previous approved version (including updates for inflation, interest rates and regulatory arrangements for RTB receipts) and some "what if?" analysis to stress test the latest plan against potential risks.

8. The previous approved model included a Council House Build programme (CHBP) of £273m for the 10 years from 2022/23. The CHBP remains unchanged and along with the programme of works for existing stock (including the decarbonisation plans) requires additional borrowing of £196m and revenue contributions of £9m to deliver the plans. The base business plan demonstrates that using a combination of resources from the Major Repairs Reserve (MRR) and from revenue, the HRA can finance the additional borrowing required and fully repay this borrowing (as well as the outstanding self-financing loans) over the course of the plan, while retaining a balance on the HRA at the end of the plan of £34m. This provides both a financially and operationally sustainable business model, against which capital plans can be continually monitored.

9. The HRA continues to face many risks and issues, many of which could be significant, in terms of financial impact to the business plan. These risks and issues are more significant for the council as it proactively drives forward substantial investment in social housing development, with both existing schemes and more schemes planned.

Main Considerations for the Council

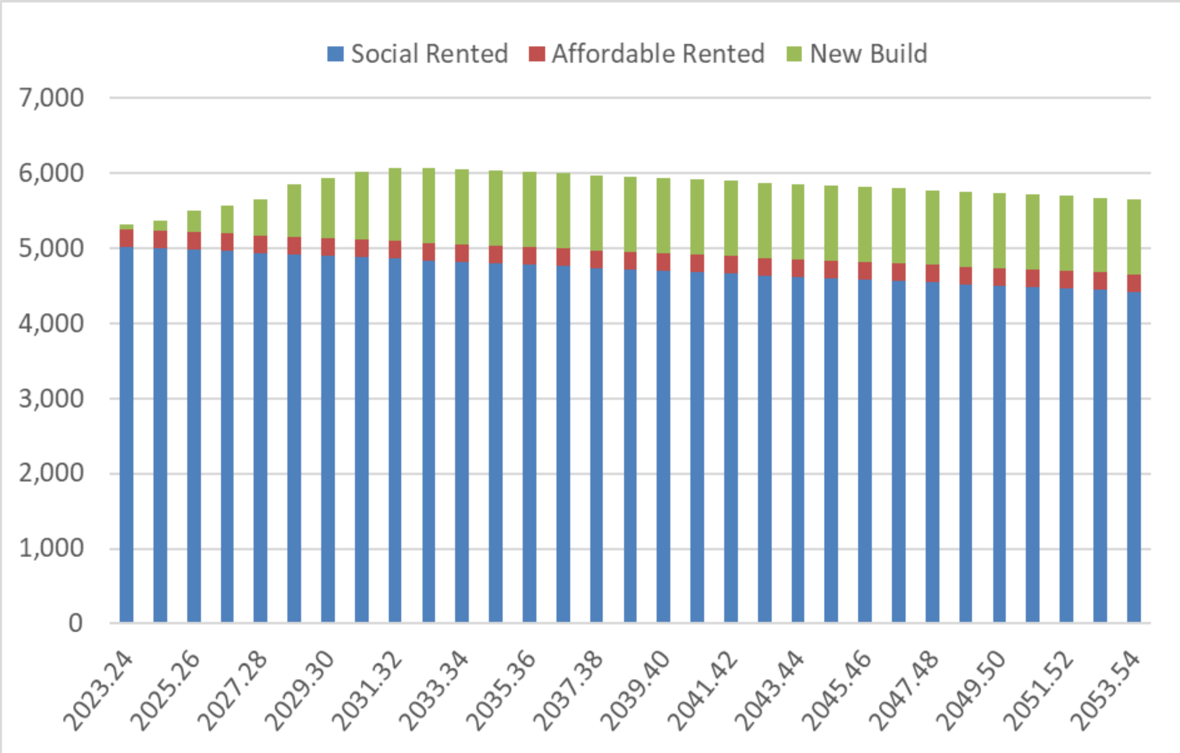
<u>HRA 30-Year Business Plan Review</u>

10. The HRA 30-Year Business Plan is annually updated during the budget setting process to protect against adverse impacts on the organisation's ongoing concerns due to changing assumptions. This review ensures the continued viability and affordability of the HRA, providing flexibility in delivery to enhance the financial position.

11. The Business Plan has been revised to incorporate the budget estimates for 2024/25 and to account for the updated assumptions related to the prevailing economic conditions. The purpose of the business model is to consider at a strategic level the impact of plans and forecasts on the HRA over a 30-year period from 2023/24.

<u>Assumptions</u>

12. <u>Stock numbers</u> on 1 April 2023, the Council owned 5,342 tenanted units (including 32 shared ownership and 270 at affordable rent). Projected Stock numbers are shown in the table below.



13. Inflation There are two measures of inflation included in the business plan: CPI which is used for rent calculations; and the Retail Price Index (RPI) which is used for other income and expenditure. In accordance with the September 2023 indices, RPI for 2024/25 is 8.9% and CPI is 6.7%. For later years, in line with the Government target, CPI is assumed at 2% (and RPI at 3%).

14. Rents and Other Income Social rent policy is set out in the Government's policy statement. A direction is provided to the Regulator of Social Housing to regulate the policy through application of the Rent Standard. The regulation required a ceiling to be placed on rents at 7% for 2023/24 but for 2024/25 reverts to the previous limit on rent increases of CPI + 1%. The Government promised consultation regarding the ongoing policy for rent increases from 2025/26, which is still awaited. In the absence of any further advice the Council have made a prudent assumption that future rent increases will be limited at CPI only. Detailed rent modelling has been undertaken to support the inputs to the business plan.

15. Although not a regulatory requirement, constraining affordable rents (which apply to new properties supported by Government funding) at the level of the Local Housing Allowance (LHA) will be considered as part of the ongoing business planning work. This would only affect a small number of tenants (195) where the affordable weekly charge (for rent and services) exceeds LHA by on average £26.60. LHA rates were anticipated to be frozen until 2025/26 but in the Autumn Statement it was announced they would increase to the 30th percentile of local market rents from April 2024. It is planned to undertake detailed modelling of the impact of LHA on rents, once the rates for 2024/25 are known, so that this approach can be considered in advance of rent setting for 2025/26. Other income has been included in line with the HRA budgets and increased in line with RPI.

16. Right to buy (RTB) A reduction in RTB sales to 20 per year from 2023/24 is forecast based on the latest sales data. Detailed analysis of the implications for the Council is modelled separately. This modelling supports the Government return

required for pooling of receipts and the apportionment of forecast receipts (arising from future sales), with the outputs being reconciled and applied to the business plan. More details of the rules for dealing with RTB receipts are shown below under 'Usable RTB Receipts'.

17. Management and Maintenance All inputs are based on the latest estimates. Management (and service) costs are assumed to increase in line with CPI. Maintenance costs are assumed to be linked to RPI increases. Both management and maintenance costs are assumed to vary with stock changes.

18. Council House Build Programme The Council House Build Programme is the same as agreed in the previous approved business plan. Scheme costs total £273.1m, of which £9.2m was assumed to be incurred in 2022/23 (before the start of the business plan model).

19. Other Capital Expenditure. Provision is also made in the business plan for planned repairs and renewals for the Council's existing stock, which is linked to stock numbers, decarbonisation works and IT upgrades. Increases are assumed to be in line with RPI.

20. Reserves The Council has included a minimum revenue balance of £1m throughout the business plan. Where there is a shortfall in resources to meet the capital plans, revenue resources can be used if the balance on the revenue account does not fall below this level. However, to ensure that the level of borrowing required for the capital programme is affordable, it is necessary to maintain revenue balances at higher levels (to meet the financing costs of new borrowing). The approach adopted by the Council to resource the capital programme is shown below.

Resourcing the Capital Programme

Useable RTB Receipts and Retained (1-4-1) Receipts.

21. The rules governing the distribution and use of RTB capital receipts are complex. There is a schedule that applies different treatment to HRA capital receipts. An initial draw on receipts is undertaken with a proportion being returned to Government. Any remaining receipts can be retained by the Council as 1-4-1 receipts only to be used in accordance with the terms of a retention agreement. The business plan currently assumes that all the RTB receipts except the local authority share are applied to the HRA.

22. An agreement between the Council and the Government sets out the requirements for the Council to be able to access the retained (1-4-1) receipts, which would otherwise be paid to the Government. The most recent retention agreement requires that receipts must form no more than 40% of 'eligible' expenditure ('relevant for the permitted purpose'), the balance coming from other resources including borrowing and the Council's own resources. If the receipts are not used within five years, they must be returned to the Government with compound interest at 4% above the Bank of England base rate. Under the special arrangements for 2022/23 and 2023/24 the Government share of receipts is added to the retained (1-4-1) receipts.

23. Grant is included for CHBP schemes, where agreed as part of the Homes England programme, that the Council is currently accessing for some developments.

24. Other Receipts includes any other HRA (non-schedule) receipts or non HRA receipts available to support capital expenditure, for example from Shared Ownership sales.

25. Major Repairs Reserve the HRA makes a provision by way of a credit to an MRR of an amount in respect of depreciation applied to the stock. This MRR is used to fund capital investment in refurbishment components such as kitchens, roofs etc.

26. Revenue Contribution to Capital Outlay (RCCO) To maximise the availability of revenue resources to support additional borrowing it has been assumed that no revenue contributions will be made to support the capital programme until 2030/31, by which time most of the current CHBP costs will have been incurred. After this time revenue balances can be used if this does not result in balances on the HRA falling below £1m.

27. Borrowing the Council borrowed £118.8m in 2012 to meet the self-financing settlement. The borrowing was undertaken with phased maturity dates continuing until 2036/37. The opening balance of these loans in 2023/24 is £86m. These are Public Works Loan Board (PWLB) fixed maturity loans with interest charged based on each specific loan. As no revenue resources have been assumed to support the capital programme until 2030/31, any shortfalls in resources are assumed to be met from additional borrowing using long term PWLB fixed maturity loans. Interest rate projections have been provided by Link Asset Services who are the council's Treasury Management advisors and are applied (based on 25-year borrowing) at 4.5% in 2024/25, 3.8% in 2025/26 and 3.6% thereafter. These rates assume that the concessionary rate of 40 basis points (0.4%) currently available to the HRA continues. When a loan matures, it is assumed that the loan will be refinanced until there are sufficient resources available in the plan to provide for repayment.

Changes to the Previous Approved Business Plan

Summary

28. The following table shows the changes to the annual opening balance on the HRA from the previous approved version to the latest base model. Many of the changes will impact the financing of the plan and the interest on balances. For clarity the table summarises all the financing and interest changes together. More details for each of the changes are provided in the sections below the table.

Opening Balance	**Para**	**2023.24**	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**	**2030.31**	**2031.32**	**2032.33**
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cabinet approved		**13283**	**15937**	**19325**	**21956**	**24203**	**25691**	**27074**	**28282**	**20760**	**17308**
Inflation	3.2		(110)	(228)	(267)	(295)	(324)	(357)	(387)	(408)	(444)
Budget Update	3.3		(300)	160	147	133	107	89	71	62	52
RTB New Arrangements	3.4		16	21	35	54	70	85	100	125	128
Interest Rate Forecast	3.5		(287)	(908)	(1,088)	(1,392)	(1,304)	(1,509)	(1,702)	(1,821)	(1,908)
Financing	3.6		(388)	907	994	981	955	939	841	1,451	5,801
Opening Balance	3.7		(11,394)								
Interest on Balance	3.8		265	88	114	148	213	235	303	215	79
Annual B/Fwd	3.9		0	(12,197)	(12,157)	(12,222)	(12,592)	(12,875)	(13,394)	(14,167)	(14,541)
New Base Model		**13,283**	**3,740**	**7,168**	**9,734**	**11,611**	**12,816**	**13,681**	**14,115**	**6,219**	**6,476**

Changes

29. Forecast inflation for 2024/25 included in the approved model was 6% for RPI and 5% for CPI. These are increased in line with the September indices in the current plan to 8.9% and 6.7%. The costs to the business plan reflect expenditure increasing more than income.

30. The 2023/24 budget is applied to the business plan; the surplus is less than previously anticipated and reduces the opening 2024/25 balance. Estimates for 2024/25 have also been updated and these are used for future year forecasts. The table includes updates to the loan portfolio at the 1 April 2023 in accordance with the latest advice from the Council's treasury team.

31. Despite the availability of concessionary interest rates for the HRA from the PWLB, the rates available for borrowing have grown significantly. Interest rates have been applied to the business plan based on the Council's latest projections, which have a significant impact on the business plan.

32. The opening balance on 1 April 2023 has been adjusted to reflect the repayment of self-financing loans originally anticipated to be refinanced, this is now scheduled to take place annually until 2031. Although this is a one-off adjustment, it forms a significant part of the variance between the Cabinet approved plan and the latest base model as it is applied to each year's brought forward adjustment.

Model Outputs and Analysis

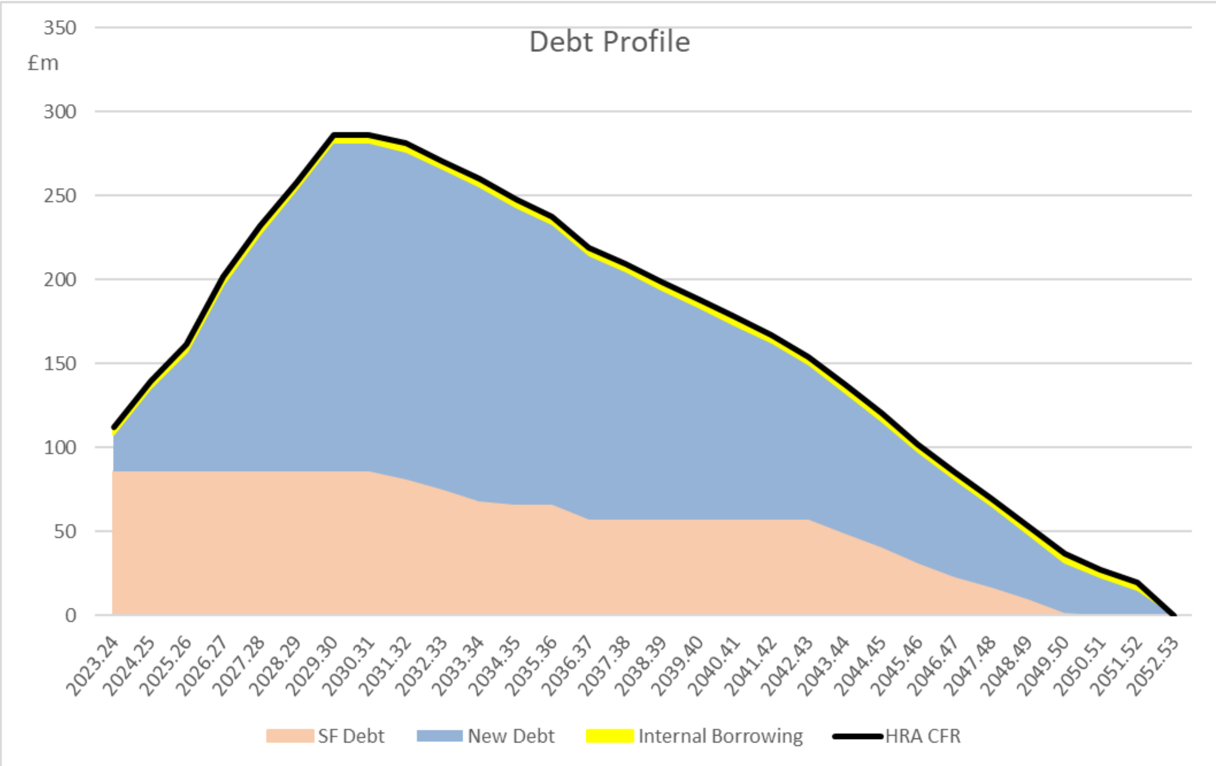
33. This section summarises the outputs to the business plan model, giving the latest picture of the current and forecast financial position of the HRA and its capital programme. It also quantifies some of the risks to the business both within and outside the control of the Council. To make viewing easier the tables are shown for the first ten years, which covers the duration of the CHBP, but the output analysis refers to the full 30-year period in recognition of the importance of long-term sustainability for the HRA.

Capital Expenditure and Resourcing

	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
CAPITAL EXPENDITURE										
Major Works & Improvements	11,032	10,865	11,100	9,654	9,729	10,109	11,192	11,286	11,269	8,637
Works to promote decarbonisation	6,105	7,011	7,221	7,438	7,661	7,891	8,128	8,371	0	0
Development Schemes	42,171	35,021	21,674	48,818	40,607	32,021	27,132	13,715	3,202	80
Other	11	12	12	13	86	14	14	14	15	15
Total Expenditure	59,319	52,909	40,008	65,923	58,083	50,035	46,466	33,387	14,486	8,732
FINANCING										
External Borrowing	21,785	27,503	22,050	40,097	30,020	26,377	27,756	0	0	0
RTB Receipts	525	596	620	645	671	698	726	754	783	813
Retained Receipts	6,995	3,486	1,429	1,489	1,552	1,616	1,683	1,765	928	0
Grant	4,169	3,455	1,980	5,448	4,770	2,970	2,700	360	0	0
Other Capital Receipts	1,239	5,769	1,271	5,090	7,404	3,994	2,751	2,024	1,743	1,957
Major Repairs Reserve	24,605	12,100	12,658	13,154	13,665	14,380	10,850	19,600	11,032	5,963
Revenue Contributions	0	0	0	0	0	0	0	8,884	0	0
Total Financing	59,319	52,909	40,008	65,923	58,083	50,035	46,466	33,387	14,486	8,732

34. There are small differences between the council’s current capital budget and the 30 year capital plan included in the HRA Business Plan produced by the consultant in November 2023 (attached in full as Appendix 3.) This is due to timing differences and more recent information around expenditure forecasts and the re-profiling of spend into future years that the council is reflecting in the capital budget that are not included in the Business Plan.

35. The business plan calculates the additional borrowing requirements to meet any shortfall in resources to deliver the capital programme plans. The borrowing is assumed at concessionary HRA rates based on the forecasts from the Council’s advisors (applied as a consolidated rate on an annual basis). This additional borrowing is used to resource the CHBP and programme of works for existing stock (including the decarbonisation plans) until 2029/30. In 2030/31 revenue balances are used to support the capital programme and no further borrowing is required. The additional annual borrowing requirements until 2029/30 total £196m and the revenue support for 2030/31 is £9m. During this time, the outstanding loans undertaken to meet the cost of self-financing are refinanced at maturity.



36. The Council’s debt management strategy is to provide for repayment of debt once there are sufficient resources available in the plan, which commences in 2031/32. By using a combination of resources from the MRR and from revenue the Council can fully repay the additional borrowing and the residual self-financing loans over the course of the 30-year plan, leaving revenue balances of £34m. This provides a financially sustainable business model, against which the capital plans can be continually monitored. However, the model is dependent on maintaining balances and any decisions that reduce income or increase expenditure could not only affect the provision for debt repayment but also the capacity for new development in the future.

37. The business plan assumes that as soon as additional resources are available in the HRA these will be used to provide for the repayment of debt. In practice, whether the loans are repaid will be subject to corporate treasury decisions and will affect the HRA capital financing requirement (HRA CFR), which could have implications for the Council's overall financing requirement.

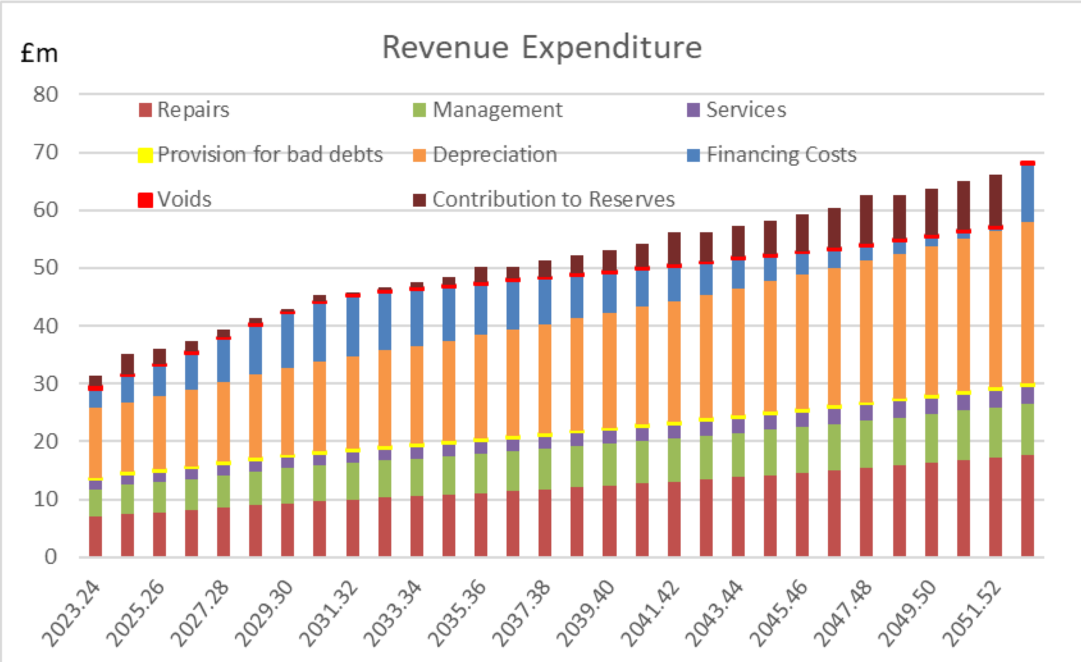
Revenue Projections

	2023.24 £000	2024.25 £000	2025.26 £000	2026.27 £000	2027.28 £000	2028.29 £000	2029.30 £000	2030.31 £000	2031.32 £000	2032.33 £000
INCOME AND EXPENDITURE ACCOUNT										
Income										
Dwelling Rents	28,542	32,066	32,920	34,231	36,027	37,929	39,508	41,729	42,074	42,947
Voids	(619)	(257)	(262)	(271)	(282)	(293)	(303)	(318)	(319)	(326)
Net Rents	27,923	31,809	32,658	33,960	35,746	37,636	39,205	41,411	41,755	42,621
Non Dwelling Rents	405	425	438	451	465	479	493	508	523	539
Charges for services and facilities	1,132	1,200	1,236	1,273	1,311	1,351	1,391	1,433	1,476	1,520
Contribution towards expenditure	1,201	1,226	1,263	1,301	1,340	1,380	1,422	1,464	1,508	1,554
Other Income	141	132	136	140	145	149	153	158	163	168
Expenditure										
Repairs and maintenance	(7,134)	(7,521)	(7,782)	(8,113)	(8,595)	(8,962)	(9,336)	(9,687)	(9,995)	(10,269)
Supervision and management	(4,609)	(5,006)	(5,163)	(5,343)	(5,630)	(5,821)	(6,012)	(6,179)	(6,310)	(6,413)
Special services	(1,654)	(1,829)	(1,866)	(1,903)	(1,941)	(1,980)	(2,019)	(2,060)	(2,101)	(2,143)
Provision for bad debts	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)
Depreciation	(12,100)	(12,100)	(12,658)	(13,154)	(13,665)	(14,380)	(14,943)	(15,508)	(16,043)	(16,524)
Net cost of services	4,935	7,967	7,893	8,243	8,805	9,483	9,985	11,171	10,607	10,682
Interest payable	(3,477)	(4,718)	(5,545)	(6,630)	(7,939)	(8,986)	(9,992)	(10,522)	(10,527)	(10,279)
HRA investment income	393	179	219	265	339	368	442	339	177	189
Surplus / (deficit) for the year	1,851	3,428	2,566	1,878	1,205	864	435	988	257	592
MOVEMENT IN THE HRA BALANCE										
Surplus / (deficit) for the year	1,851	3,428	2,566	1,878	1,205	864	435	988	257	592
Capital Expenditure funded by the HRA	0	0	0	0	0	0	0	(8,884)	0	0
Increase/(decrease) in the HRA balance	1,851	3,428	2,566	1,878	1,205	864	435	(7,896)	257	592
HRA Balance Brought Forward	1,889	3,740	7,168	9,734	11,611	12,816	13,681	14,115	6,219	6,476
HRA Balance Carried Forward	3,740	7,168	9,734	11,611	12,816	13,681	14,115	6,219	6,476	7,067

38. The revenue projections show the cost of borrowing increasing over the CHBP investment period. However, there is sufficient operating income to be able to meet those costs and retain an annual surplus, which ensures that the minimum revenue balance is maintained. After the end of the CHBP, no additional borrowing is required so revenue resources provide for the repayment of borrowing. This reduces the interest payable, which increases the annual surplus and builds on the reserve to allow further provision for repayment. The combination of the use of revenue resources and MRR to provide for debt repayment keeps revenue balances at between £20m and £25m in the longer term. Balances increase in the last few years of the business plan allowing for an additional revenue provision to be made in the final year of the plan (2052/53) to fully repay the outstanding debt including the internal borrowing that the HRA has with the General Fund. This reduces the revenue balance at the end of the plan to £34m.

39. The business plan is sensitive to changes particularly at the start of the plan as a change to year 1 has an impact for the remainder of the 30 years. Maintaining the revenue balances provides for debt repayment if the current forecast is achieved. Any local decisions to reduce income or increase expenditure would inhibit this plan, reducing the ability to provide for debt repayment. In particular, the effect of lower rent increases (local decision or regulated) would have significant consequences for the business (as assessed in the analysis of the risk in relation to rents below).

40. The following chart illustrates how the Council plans to use its HRA income to meet revenue expenditure over the course of the 30-year business plan.



41. As noted above, the financing costs in the final year of the plan (2052/53) include the use of revenue resources to repay loans, as a result in that year there is no contribution to reserves.

42. Risks Sensitivity tests have been applied to the base model to assess the impact of changes to the forecasts. Each test has been undertaking against the base model, except were considered as a compensating adjustment to mitigate any negative impact on the business plan. The risk to the business plan is likely to result from a blend of changes, the further in the future the forecast the more changes are likely. This analysis considers some of these risks but the impact of a combination of tests will not necessarily be equal to the sum of the individual tests.

Rents

43. Social rents are regulated through the policy statement and Rent Standard. Restrictions on annual increases are applied through the regulations so there is no option to increase charges for existing tenants beyond the regulation allowed increase. The Council have assumed that this increase will be limited to CPI only from 2025/26 but the Government could (and have previously) provided additional constraints on rents. A test has therefore been undertaken to show the impact of rent increases limited to CPI – 1% from 2025/26. Although this is less likely than CPI only increases it is not outside the scope of the regulatory requirements.

44. Given the experience of the impact of rent reductions between 2016 and 2020, it is not a surprise that an annual 1% reduction in rents compared to the base model has a significant impact on the business plan. All other things being equal, the cost is about £195m over the 30-year plan. The HRA goes into deficit by 2028/29 and with increasing deficits each year, there is a shortfall in resources to meet the capital programme in 2030/31 and revenue balances fall below the Council's minimum required balance in 2031/32. If the Council were setting this budget in 2031/32 it would not meet the statutory requirement for a balanced budget. This

analysis is based on the borrowing for the capital plans remaining unchanged. In practice, it is unlikely that the Council would wish to commit to borrowing where the HRA was unable to meet the future financing costs (as ultimately these would become a cost to the General Fund). Further consideration is given below to how the Council may address this risk.

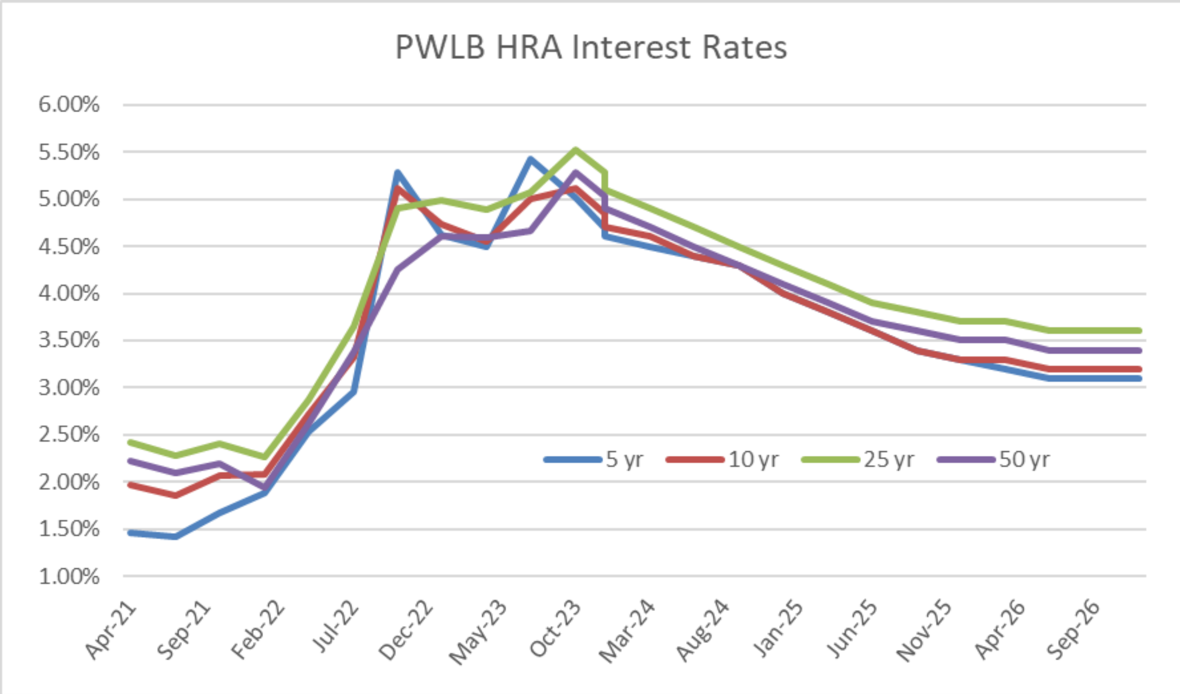
45. There are some opportunities for the Council to mitigate the risks of rent regulation. A formula rent for each social rented property is calculated with reference to the January 1999 value, bed size and location. Flexibility can then be applied to the formula rent (up to 5% for general needs and 10% for supported housing) where there is a clear rationale that takes account of local circumstances and affordability. It is understood that some local authorities are using the flexibility with justification based on funding decarbonisation works (which are additional to planned capital works), which will reduce future energy costs but it is unclear how this is viewed by the Regulator of Social Housing. Restrictions on annual increases are applied through the regulations so there is no option to increase charges for existing tenants beyond the regulation allowed increase. For new tenancies, the Council can (and does) re-let at the formula rent, so there is potential for actual rent to be set taking account of the available flexibility. The use of formula rent flexibility would be beneficial to the business plan and could be considered whether or not additional constraints are applied to future rent increases.

46. The Council could also choose to reduce its debt repayments. Debt repayments are limited to only those that can be met using available resources in the MRR to limit any impact on the revenue balances (although the restriction on rents still creates long term annual HRA deficits). This leaves a shortfall in resources available to meet the capital programme of £55m between 2027/28 and 2029/30. Consideration has been given to reducing the CHBP to try and balance the business plan but the consequent loss of new build units and the risk of interest payments on returned 1-4-1 receipts create a deficit on the revenue balances.

47. The analysis shows that the costs of rent constraint can be partly offset through the actions above but ultimately an ongoing annual deficit on the HRA is not a sustainable business model in the long term. It is important to recognise that where costs are subject to inflationary increases and rent income is constrained at less than inflation it is very unlikely that any local authority could continue to balance its HRA.

Interest

48. Interest rate projections have been provided by Link Asset Services and represent their latest forecasts, which have been discounted in line with the concessionary rate available for the HRA from the PWLB. A recent announcement from the Treasury extended the availability of the concessionary rate until June 2025.



49. If the availability of the concessionary rate ends in June 2025, there remains sufficient revenue balance in the final year of the plan (2052/53) to make provision for the full repayment of the outstanding debt including the internal borrowing that the HRA has with the General Fund. The revenue balance at the end of the plan is reduced to £7m (compared to £34m in the base model) indicating that the additional 40 basis points on borrowing after 2025/26 has a cost of £27m over the planning period.

50. In the light of the recent volatility in interest rates and the impact on the business plan of the updated forecasts (shown in the changes to the previously approved plan), an additional 1% on the forecast rates has been tested. The additional revenue costs of the borrowing result in annual HRA deficits from 2027/28 and a shortfall in resources to support the capital programme in 2030/31. The revenue contribution from 2030/31 has been removed, which maintains minimum balances until 2031/32. For some time thereafter the revenue balance is negative. To rebalance the revenue account would require additional income or savings. One option for the Council would be to apply the formula rent flexibility as detailed for offsetting rent constraint in the analysis above. This reduces the annual HRA deficits and removes the negative HRA revenue balance (although the revenue balance is critically low in 2034/35). The annual revenue account moves to a surplus from 2037/38 and the balance continues to increase, which provides for debt repayment. The balances are, however, not sufficient to repay all the debt with £14m remaining at the end of the plan.

<u>Summary</u>

51. The analysis in this section shows the business plan outputs using the previously approved CHBP and the latest estimates. This forms the ‘base’ business plan. To consider the risks of regulatory and economic changes, sensitivity tests have been undertaken. The output analysis is shown below.

Business Model	Revenue Balance at Year 30	Debt Outstanding at Year 30
	£m	£m
Base	34	0
Rent Constraint at CPI - 1%*		
Removal of Concessionary HRA rate	7	0
Interest rates + 1% offset by rent flexibility	1	14

* Accurate outputs are only available where the business plan is balanced over 30 years
The analysis of rent constraint shows this is not achieved and comparable outputs are therefore not available.

Business Plan review conclusions

52. The base business model shows a sustainable long term HRA that supports the Council's current CHBP and existing stock capital plans. Repayment of new borrowing and the existing self-financing loans is achieved over the course of the planning period and revenue balances are maintained above the minimum required level throughout with a balance of £34m at the end of the plan. The Council have taken a prudent approach to future rent increase regulations, which adds to the robustness of the current model.

53. The "what if?" analysis has shown that the base plan has some resilience to adverse economic and regulatory changes. If interest rates increase above the forecast levels, the Council can maintain a viable business plan, if it is able to apply formula rent flexibility across all its stock. However, if the Government were to impose an additional restriction on rents with increases at a maximum of CPI -1%, a balanced business plan is not sustainable in the long term.

54. The analysis reflects the Council's debt management strategy to provide for debt repayment once resources are available. This is dependent on maintaining revenue balances at the planned levels and any decisions that reduce income or increase expenditure could not only affect the provision for debt repayment but also the capacity to consider new development in the future.

Budget Estimates for 2024/25

55. Appendix 1 provides an overview of the proposed revenue budget for 2024/25.

56. The main changes to the budget include:

Resources have been enhanced in several areas of the service to address current and future challenges. Salary budgets have been increased to accommodate additional posts to deal with:

- Implementing a new Asset Management function focusing on strategy and investment for existing HRA homes, ensuring that we invest appropriately securing long-term viability and ongoing suitability of the assets.
- Lettings – providing a dedicated lettings service for the HRA.
- An Estates Surveyor will be appointed to deliver a full mapping review of HRA land, undertake future Right-To-Buy valuations, deal with all HRA-related enquiries where leases or licences are needed, and deal with the release of land covenants.

57. Energy costs have experienced an increase above inflation rate for all blocks and communal areas where the HRA is responsible for payment.

58. The budget has been adjusted to account for inflation impacting all contracts and material costs.

59. There has been a rise in mandatory payments to the Housing Ombudsman and Regulator of Social Housing.

60. It is important to note that the budget estimate for rent does not precisely align with the figure in the business plan. The budget relies on specific assumptions that will not exactly match those in the plan, particularly concerning additional rent related to new build completions and purchase that are expected to be finalised in the remainder of the financial year 2023/24.

Dwelling Rental Income and garage rental income

61. The Welfare Reform and Work Act of 2016 mandated a Social Rent reduction, requiring all social housing landlords to decrease tenants rent by 1% annually for a four-year period, from April 2016 to April 2019 (excluding shared ownership homes and temporary accommodation). On 17th November 2022 the Chancellor of the Exchequer delivered his Autumn statement and announced the decision to impose a 7% ceiling to social housing rents replacing the annual rent standard for 2023/24 (which would have meant increasing rents by CPI + 1% for that year). This ceiling is to be lifted from 2024/25 meaning that rents can be increased by a maximum of CPI + 1% in 2024/25 reverting to CPI thereafter.

62. Therefore, in accordance with the Regulator of Social Housing's Rent Standard, it is proposed Dwelling and garage rents for 2024/25 will increase by CPI+1%. Table 3 below shows the average weekly rent for existing and new tenants.

Table 3: Average Weekly Rents

Average Overall Rent Increase for Two and Three Bed Houses		
	2023/24	**2024/25**
2 Bed Rent	£100.50	£108.24
2 Bed Rent Increase	7%	7.70%
3 Bed Rent	£109.61	£118.05
3 Bed Rent Increase	7%	7.70%
Average Rent	£100.63	£108.38
Average Rent Increase	6.58	7.75

Rents for Garages			
	Current Charge	**Charge with 7.7% increase applied**	**No. of Garages**
	£	£	
Weekly charge for 53 weeks in 2024/25	9.19	9.90	948
*Higher weekly charge	12.58	13.55	39
Annual rental income	£487,745	£525,302	
Increase in annual rent		£37,556	
Percentage increase in annual rent		7.70%	

* A higher rent is payable for some newer, garages

63. The service participates in a benchmarking group comprising other organisations that use the same housing consultancy provider as Wiltshire. The provider has confirmed that for 2024/25 all 19 local authorities in the group are proposing to increase their rents by CPI + 1% in 2024/25. Using 2023/24 data, Wiltshire has one of the lowest average weekly rents and are in the lower quartile (ranking at 14 out of 19 providers) although it should be noted that 7 of the providers are London authorities.

64. Yearly rental income growth is crucial for realising the HRA's long-term aspirations and ensuring business continuity and in part to recover from prolonged period of rent reduction or capping. The ambitious capital programme that focuses on construction good quality low or zero carbon affordable housing in Wiltshire and making long-term improvements to the existing housing stock. This includes the energy efficiency programme making the housing more carbon neutral and therefore more cost effective for our tenants.

65. Other key programmes include estate improvements to waste facilities and upgrading of sewerage treatment works. Rental income will be allocated to fund the interest payments, maintain existing homes and assets, and support community initiatives, enhancing the overall quality of service for tenants and fostering community projects. The Council also provides a range of discretionary support to tenants that includes tenancy sustainment, financial support, and mental health support.

66. Making the decision to increase our rents is never easy and seeks to strike a balance between affordability for tenants, acknowledging the support services in place, with the investment required in homes and for the longer-term viability of the business plan for current and future tenants. This is even more challenging considering the current economic climate and current cost of living pressures however there are a number of options available to tenants who are struggling:

67. A number of our tenants will be impacted by the Removal of the Spare Room Subsidy (RSRS.) In January 2023, Cabinet approved a housing policy change – namely that any social housing tenant who was under-occupying their home would be awarded Band 1 status (the highest available) to assist with an urgent move to a smaller property. In addition, discretionary housing payments (below) can be applied to cover removal costs. We are aware of 113 tenants who are currently under-occupying. This equates to 12% of those on partial benefits.

68. Over the last 12 months, there has been an increase in tenants seeking assistance with their housing costs. The service has a variety of support options in place to assist tenants facing financial hardship. These professionals help tenants to manage their finances and optimise available income, such as access to benefits. Officers actively monitor arrears and maintain regular engagement with tenants, ensuring early intervention for those who are facing financial challenge. Tenants can apply for and be supported to apply for a discretionary housing payment (DHP) - this is a ringfenced grant from central government determined by the DWP each year that local authorities can award at their discretion to those in receipt of Housing Benefit (HB) or Universal Credit (UC) housing costs to meet any shortfall between the rent and the housing costs they are awarded. In order to receive a DHP tenants have to be in receipt of HB or UC Housing costs and there has to be a shortfall in rent. Currently only those in temporary or supported accommodation are

helped to move with funding from the discretionary housing pot. Funding is targeted at those least able to meet the shortfall. Wiltshire has been awarded £0.320m this financial year and funds need to be returned if unspent. Spend to date this year is £0.200m and applications are welcomed via our website.

69. Additional assistance is also provided to tenants through the Tenant Utility Hardship Fund, introduced in 2022/23. These resources are intended to support tenants who have been impacted by the escalating cost of living. The funding for this programme is derived from feed-in-tariff income generated by solar panels installed on the housing stock.

70. The Income Team has implemented the new Rent Sense software system which uses analytics to rationalise rent arrears accounts, the system is showing good early results. At the time of writing this report, the Support Team have dealt with 324 support cases so far, this financial year with 105 cases currently being worked on. In the year to date the team have secured financial gains for our tenants in the amount of £0.442m.

Table 4 – Income Increases for Tenants

	% of tenancies	**2024 Increase**
Housing Residents		
Full Benefits	50%	6.70%
Partial Benefits	18%	6.70%
Pensioners (state pension only)	17%	8.50%
Wage Earners:	15%	*Analysed below*
	100%	
Analysis of Wage Earners Increased income		
National Living Wage		10%
Minimum Wage - 21-24 rate		12%
Minimum Wage - 18-20 rate		15%
Minimum Wage - 16-17 rate		21%
Apprentice Rate		21%
General Pay Inflation *(per B of E and HMT panel)*		<4%

71. It should be noted, that approximately 50% of our tenants are in receipt of benefits (Housing Benefit or Universal Credit) that covers the full cost of their rent and service charge (based on data as of January 2024). Of the remaining 50% approximately 18% are in receipt of benefit that partially covers their rent, 17% are pensioners who are in receipt of an 8.5% state pension increase for 2024 meaning that only 15% of tenants will be affected by the full increase who are wage earners. It should also be remembered that tenants have already benefited from below inflation rent increases in 2023/24 via the rent cap. Additionally, tenants also benefited from the ‘social rent reduction’ which required social landlords to reduce their rents by 1% each year for four years from 2016. The decision on rents does not just have a one-year impact, it compounds over the life of the business plan and so has a lasting impact on the viability of the business plan.

Capital Programme

72. The proposed Capital Programme 2024/25 is set out in Appendix 2.

Planned Refurbishment of Council Stock

73. The planned maintenance programmes for the housing stock (kitchen, bathroom, roof, window replacement) continue to be delivered against budget. A procurement exercise has been conducted, leading to the appointment of new planned maintenance providers under contracts that commenced in October 2023. New work programmes are currently being scoped for the next 5-year period, and this is expected to require some adjustments to the capital profiling over the coming years.

74. A key work area of capital spending is through the Housing Energy Efficiency Programme (HEEP) which aims to improve energy efficiency and reduce carbon emissions across all housing assets over the next 10 years. This programme includes improving levels of insulation, removing gas heating and hot water systems and replacing them with electric systems, and installing solar panels. The programme aims to reduce tenant's utility bills as well as supporting the broader climate change mitigation agenda.

Potential Household Savings from Energy Efficiency Measures

Energy Efficiency Measure	Estimated Saving
Loft Insulation	5%-10%
Cavity Wall Insulation	10%-15%
Solid Wall Insulation	3%-5%
Floor Insulation	5%-10%
Windows and Doors	1%-5%
LED Lighting	0.50%
*Hot Water	30%
Replacement of storage heaters with high heat retention storage heaters	20%-25%
Solar PV (on suitable properties only)	10%-30%

**Installation of smart hot water cylinders to be used in conjunction with solar divertors attached to solar PV (on suitable properties)*

75. The service continues to explore the use of electric vehicles for the service and has purchased the first 2 small fully electric vans. This approach will continue to be explored with further electric vehicles joining the fleet as the technology and carrying capacity improves.

76. Project works are planned for the coming year delivering improvements to The Friary and Bemerton Heath estates. The works include changes to hard and soft landscaping areas to improve aesthetics and reduce anti-social behaviour and installing new waste and recycling bin facilities to reduce fly-tipping and improve recycling opportunities.

77. Minor refurbishment projects are also planned across several of the Sheltered Schemes, on a programme that will be delivered over the next 3-4 years.

Council House Build Programme

78. The Council House Build Programme is a 10-year delivery programme to provide 1,000 additional owned and managed Council Homes.

79. The Programme is to deliver this by means of 70% land led developments where the Council will manage the development of sites from project inception through to occupation. A variety of delivery methods have been considered, the current mainstay of the delivery model is via offsite MMC construction with an ongoing contract with Rollalong Ltd, this contract is to run for three years and deliver in excess of 150 MMC zero carbon homes. The Council are currently developing its own standard house types that in the future will be able to be deployed into further development sites, both for general needs and sheltered affordable housing.

80. The remaining 30% of the programme is to be delivered by means of acquisition, this is being undertaken by working in partnership with regional/national developers on s106 and development agreement sites. Further there is engagement in the open market to purchase strategic homes for the use of affordable housing mainly for general needs, rough sleepers and refugees.

81. To date the programme has delivered 96 additional Council Homes, with a further 409 in the pipeline being actively being progressed by the Residential Development Team.

Overview and Scrutiny Engagement

82. The Council's Housing Board discussed this report in December 2023 and recommendations were put forward to Cabinet. In so doing they asked for more information in the following areas to be included in the final report to Cabinet, all of these additions have been made where possible.

For the paper to be updated to reflect key issues raised by the Housing Board:

- *Greater analysis of the impact of the rent increase on tenants in relation to partial benefit receipt, working tenants, under occupation, and tenants in receipt of pension.*
- *For tenants that are under occupying their home provide greater details around under occupation, which would include potential support for moving (downsizing), the basket of costs regarding Adult Social Care, communicating Home 4 Wiltshire recent banding changes, the use of Discretionary Housing payments and what the 113 under occupying residents represents as a percentage of the 20% of residents in receipt of partial benefit.*
- *An indication of the likely cost savings for tenants where retrofitting for energy efficiency purposes has been undertaken.*

Safeguarding Implications

83. The HRA has an ongoing responsibility for the safeguarding of vulnerable people within its communities. There are no changes proposed within this report.

Public Health Implications

84. The links between adequate housing and health is well documented, clearly the provision of social housing targets the most vulnerable people in society who could face many health challenges due to their circumstances. The provision of secure housing has a substantial positive impact on the quality of people's lives. The recommendations in this report are considered to have positive public health implications by the management of a sustainable social housing service that also incorporates substantial growth in new homes and investment in our current housing stock.

Procurement Implications

85. A compliant procurement process will be followed in line with Public Contract Regulations 2015 for any required procurement. Procurement process will be designed and run, in conjunction with the Council's Procurement team and policies followed.

Workforce Implications

86. There are no changes proposed within this report with negative workforce implications.

Equalities Impact of the Proposal

87. The council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs also identify potential mitigation where applicable.

88. The provision of social housing is by its nature supportive of the most vulnerable people in society in particular with regard to economic status and age. The key proposal within the report that will have the most significant impact on residents is the rent increase. As set out in the report full consideration has been given to the financial circumstances of our tenants in relation to income and the cost of living pressures. Consequently the service provides a wide range of support and assistance for our tenants in times of hardship as described in the report.

89. The increase to rent and services charges will be applied across the housing stock. The outcome of our EIA is that the increase in rent will have a neutral effect on protected groups.

90. To help support tenants on low incomes the housing service will continue to provide a number of initiatives to enable them to manage their finances and maximise their income:

   - Publish clear information on rent which helps tenants to manage their own finances;
   - Signpost tenants to a relevant benefit agency to help ensure they are maximising their income to meet their living costs;

- Take action to raise the awareness of accessing a range of welfare benefits; and
- Provide the opportunity to access direct support in checking they are in receipt of the welfare benefits they are entitled to claim.

Environmental and Climate Change Considerations

91. As part of the Major Works capital programme, the HRA will be looking to replace components in a thermally efficient way where possible, for example installing air source heat pumps, external wall insulation and thermally efficient windows. Further detail on the Housing Energy Efficiency Programme can be found at Section 11 – Capital Programme.

Financial Implications – Section 151 Officer Commentary

92. A review of the HRA Business Plan has been prepared by a housing finance specialist provider based on information provided by the Council's operational and finance professionals. There is a degree of scenario modelling which can be used to test appropriateness of rent levels and inflation on costs and interest levels which provides the required level of reassurance that risk is mitigated. Modelling shows that charging rent at a level less than recommended in this report will have a twofold impact firstly in this financial year and an ongoing impact, in all future financial years.

93. The plan includes use of the Major Repairs Reserve (MRR) and revenue – the HRA can finance the additional borrowing required, fully repay this borrowing and self-financing loans, over the course of the plan leaving a balance at the end of the plan of £34 million.

94. The Interest Cover ratio compares the net cost of services to the interest payable. The Interest cover of 125% remains the ambition although due to the significant build programme there is a period within the plan does not achieve this – 2027/28 to 2034/35. It is recognised that during and shortly after a substantial development programme lower than 125% is often found and this is known and understood and in the wider national housing sector. If development is in fact delivered over a longer period than planned, the borrowing will be reduced, and short-term interest cover ratio improved.

95. There is always a risk in borrowing significant sums of money and the removal of the borrowing cap means that the Council can be more ambitious in terms of its development and acquisitions programme. Any schemes that the Council will consider borrowing money to finance, will be subject to the usual rigorous internal processes that ensure that the schemes are viable, meet Council priorities and will deliver homes that meet local needs. However, housing is viewed over the long-term and short-term fluctuations can have an impact which will need to be managed.

96. Included in the changes section is an adjustment to the opening balance of the plan to reflect the repayment of self-financing loans originally anticipated to be refinanced, this is now scheduled to take place annually until 2031. Although this is a one-off adjustment, it forms a significant part of the variance between the Cabinet

approved plan and the latest base model as it is applied to each year's brought forward adjustment.

97. The Business Plan provides a model for the future HRA based on best estimates and assumptions available. In recent years, we have seen significant economic change in relation to inflation and interest rates. Work will continue to monitor and refine these assumptions to inform strategic decision making and the plan will be adjusted as appropriate.

Legal Implications

98. Under Section 76 of the Local Government and Housing Act 1989, the council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that, on certain stated assumptions, the Housing Revenue Account for that year does not show a debit balance. The council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'break even' requirement. If not, then the council shall make such provisions as are reasonably practicable towards securing that the proposals as revised, shall satisfy the requirement.

99. Under Section 24 of the Housing Act 1985, the council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. In exercising this function (determining and fixing rent), the council should have regard to the rents charged in the private sector. A decision to increase rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985. The Housing Act 1985 defines the legal requirements for informing tenants of rent increases. In practice this requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that the increase becomes operative.

100. Transfers between the HRA and General Fund are limited to specific circumstances. Housing rents should never be subsidised by the General Fund and likewise, Council Tax cannot be subsidised by the HRA. The Localism Act 2011 reshaped local authority housing financing by abolishing the national subsidy system and moving to a self-financing framework effective from April 2012. Consequently, local authority housing revenue accounts gained the capacity to retain all rental income, empowering them to effectively cover the costs associated with housing stock management and maintenance.

Andy Brown – Deputy Chief Executive and Corporate Director of Resources

Report Authors: James Barrah, Director Assets and Marie Taylor, Head of Finance, Children & Education, Rozalyn Vernon, Principal Accountant, Resources & HRA

Appendices

Appendix 1: Revenue Budget 2024/25
Appendix 2: Capital Budget 2024/25
Appendix 3: Housing Finance Specialists report - December 2023

Background Papers

None