Wiltshire Council

Full Council

25 February 2025

Housing Revenue Account (HRA) Budget Setting 2025/26 including Dwelling Rent Setting 2025/26 and 30-Year Business Plan Review

Executive Summary

The purpose of this report is to agree the Housing Revenue Account (HRA) Business Plan, Budget and associated housing funding decisions.

One of the main decisions that the Council must consider is the level of rent charges and the increase for our Council tenants for the forthcoming year 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 provides updates on the proposed Housing Revenue Account (HRA) Annual Revenue Budget and Capital Programme for 2025/26, including the proposed Rent Setting for 2025/26. This report also provides an update on the 30-Year Business Plan.

The new business plan model demonstrates a sustainable long-term HRA that supports the Council's investment plans. It incorporates updates to Government regulations on Right to Buy (RTB) receipts, forecasts for the impact of the latest Government consultations on rent changes, and the future of RTB. However the level of debt / borrowing in the plan with the inclusion of all anticipated investment has grown substantially from previous iterations. This heightens risk and pressure on the business.

The plan includes updated HRA forecasts and a reprofiled Council House Build Programme (CHBP) to meet prudential targets for the management of debt. It highlights potential areas of risk and outlines strategies to mitigate the impact of additional costs.

The debt profile of the new plan has changed from an exclusive repayment model to having greater emphasis on re-financing our debt in the first half of the plan. Both peak borrowing and long-term and residual debt are both substantially higher. This model is sustainable, aligns with other authorities, and maintains minimum balances on reserves.

Whilst the proposals included in this report enable the Council to set a balanced budget for the HRA for 2025/26 which is the immediate priority, an in year review will be carried out where options to reduce the high levels of debt will be explored. This will include options around the number and ratio of land led and acquisition schemes in the business plan. This further review will include more detailed scenario analysis to enhance that undertaken and presented in this report.

Scenario analysis of rent increase options from the social housing rents consultation has been conducted to assess the robustness of the plan.

This HRA annual budget report 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) Note the draft budget estimates and proposals.

b) Approve the HRA Annual Revenue Budget for 2025/26 as described in the report and Appendix 1, subject to an in year review.

c) Approve the increase of 2.7% (CPI+1%) to Dwelling Rents and Garage Rents for 2025/26

d) Approve the HRA Capital Programme for 2025/26 as described in the report and Appendix 2, including the allocation of an additional £99m for the Council House Build Programme.

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

f) Approve authority to receive bespoke or targeted grants (if awarded) during the year.

Reason for Proposals

To enable the Cabinet to recommend to Council a balanced budget (capital and revenue) for the HRA for 2025/26, and in so doing continue to provide high quality 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 of Assets
Lizzie Watkin - Corporate Director for Resources (S151 Officer)

Wiltshire Council

Full Council

25 February 2025

Housing Revenue Account (HRA) Budget Setting 2025/26 including Dwelling Rent Setting 2025/26 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 2025/26. Additionally, the report also provides an update on the 30-Year Business Plan Review.

2. The proposals included in this report will enable the Council to set a balanced budget for the HRA for 2025/26. 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.

4. The plan supports the Council's target to deliver 1000 new affordable homes. The Council House Build Programme has been re-phased and extended from being a 10-year programme to a 17-year programme to ensure the business plan remains affordable and is now scheduled to run until 2038/39.

5. Since the introduction of the 1000 homes target, the business plan and the environment in which it operates has seen fundamental change. For example, substantial shifts in global economics and supply chains, covid, substantial cost inflation, higher interest rates, a new regulatory agenda for the housing sector and many other challenges. We are fortunate that considering all of these challenges the plan is still able to support the aspiration for 1000 new homes, however the programme will just take longer to deliver.

Background including history

6. 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 tenant services.

7. 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 which was funded from borrowing.

8. To effectively utilise the newfound autonomy of the HRA under the self-financing system, the first 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. This plan is updated on an annual basis.

9. The current capital programme consists of the CHBP with future expenditure of £250.8m to complete the delivery of 1,000 homes along with the works planned for existing stock of £522.7m over 30 years. The plan requires additional borrowing of £288m until 2042/43 after which the level of debt starts to go down. The 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 £74m. This provides a sustainable business model, against which capital plans can be continually monitored. business model, against which capital plans are continually monitored.

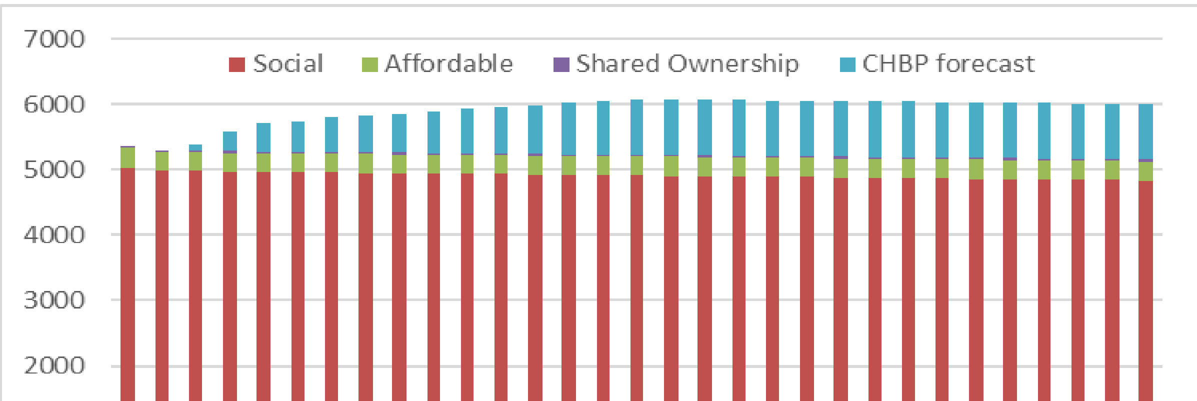
10. The HRA continues to face many risks and issues, many of which could be significant, in terms of financial impact to the business plan. These risks and issues are more significant for us as we proactively drive forward substantial investment in social housing development, with both existing schemes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

11. 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. The Business Plan has been revised to incorporate the budget estimates for 2025/26 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 2025/26.

Main Considerations for the Council

<u>Assumptions</u>

12. <u>Stock numbers</u> on 1 April 2024, the Council owned 5,359 tenanted units (including 48 shared ownership and 276 at affordable rent). Projected Stock numbers are shown in the table below which shows that stock lost through RTB is more than matched by the new provision from the CHBP and in the long-term reaches the target.



13. <u>Inflation</u> 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 2024 indices, RPI for 2025/26 is 2.7% and CPI is 1.7%. For later years, in line with the Government target, CPI is assumed at 2% and RPI at 3%.

14. <u>Rents and Other Income</u> 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 limited to an increase of 7% for 2023/24 due to the exceptional inflation rates and for 2024/25 onwards reverted to the previous limit on rent increases of CPI + 1%. The Government opened a consultation regarding the ongoing policy for rent increases in 2024/25. The Local Government Association published its response to the consultation on 24th December and further guidance is awaited. In the absence of any further advice the Council have assumed that future rent increases will be limited at CPI plus 1% only for the next 10-years reverting to CPI thereafter. Detailed rent modelling has been undertaken to support the inputs to the business plan. Should the government apply additional constraints then other options will need to be explored to ensure the plan remains viable.

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. LHA rates were planned to increase to the 30th percentile of local market rents from April 2025. However, this has changed following the change of Government, and in a written statement to Parliament, the Work and Pensions Secretary, Liz Kendall informed the House that local housing allowance rates for 2025/26 will be maintained at 2024/25 levels, following their increase in April 2024.

16. <u>Right to Buy (RTB)</u> On 30 July 2024, the Government initiated a review of the increased RTB discounts introduced in 2012. Alongside the Chancellor's Autumn Budget Statement, the Government published a policy paper titled '*A Review of the Increased Right to Buy* Discounts *Introduced in 2012'*. To support this paper, secondary legislation was introduced, amending the maximum allowable discounts (SI 2024/1073), effective from 21 November 2024. The national maximum discount for RTB sales, previously £102,000, has been replaced with regional discount levels intended to better reflect local housing markets. In Wiltshire, which is part of the Southwest, the maximum allowable discount for RTB sales will be £30,000 from 21 November. The changes also include an increase in the cost floor period from 15 to 30 years. The cost floor limits RTB property discounts to ensure that the purchase price

does not fall below the amount spent on building, buying, repairing, or maintaining the property during that period. Additionally, the Treasury will no longer receive its share of the receipts generated.

17. RTB sales of 43 for 2025/26 is forecast based on the latest sales data, with an estimated 5 RTB sales per year thereafter. The service experienced a spike in applications following the Autumn Budget statement and consequently the estimated number of RTB sales for 2025/26 includes 38 sales that are not expected to complete before the end of 2024/25.

18. 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'.

19. Management and Maintenance All inputs are based on the latest estimates. Management (and service) and maintenance costs are assumed to increase in line with CPI. Management and maintenance costs are assumed to vary with stock changes.

20. Council House Build Programme The Council House Build Programme has been reassessed to ensure the continued viability of the HRA business plan and as a result a revised development produced. Scheme costs total £294m of which £44.3m has happened in previous years. The current capital approval was £195m to deliver 1,000 homes, yet with the increase in build costs, house prices and inflation the ability to deliver the quantum of homes is not possible within the original timeframe. A reprofiled programme ensures that 1,000 homes can be delivered and required a further capital allocation of £99m. The programme will remain a blend of land-led and acquisitions (s106 and market purchases) although the impact of build costs likely to push us more towards acquisition, with an expected split of 40% land-led and 60% acquisitions. Some of the land-led scheme will enhance the HRA's Sheltered Housing stock with several new sites being developed.

21. 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.

22. Interest rate projections have been provided by Link Asset Services and represent their latest forecasts. Internal borrowing has supported the HRA for 2024/25 financial year based on the 3 Month Sterling Overnight Index Average (SONIA). The 3 Month SONIA rate provides an independent, industry recognised rate, that removes any short-term variations in internal treasury management decisions. From April 2025, external borrowing will be required. Despite the availability of concessionary interest rates for the HRA from the PWLB, the amount of capital required and 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. Rates 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 60 basis points below the standard PWLB rates and 0.4% below the certainty rates currently available to the HRA continue. The most recent

announcement from the Treasury extended the availability of the concessionary rate until June 2025.

23. 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.

24. The rules governing the distribution and use of RTB capital receipts are complex. Receipts fund transaction costs, debt linked to each sale less that assumed in the self-financing settlement and to reflect the split of receipts between the Government and the Council that applied before the re-invigoration of RTB in April 2012. Residual receipts, subject to Government agreement, can be retained as 1-4-1 receipts to support a percentage of eligible expenditure on new home development and acquisition.

25. A retention agreement between the Government and the Council outlines the conditions for accessing retained (1-4-1) receipts, which would otherwise be paid to the Government. The latest agreement allows local authorities to use 100% of retained RTB receipts to fund replacement affordable housing for 2024/25 and 2025/26 (up from 50%). It is unclear if a cap will apply from 2026/27 onwards, with confirmation expected after the government consultation closes on 15th January 2025.

26. RTB receipts can be used alongside S106 contributions. If not used within five years, they must be returned to the Government with 4% compound interest above the Bank of England base rate. Under special arrangements for 2022/23 and 2023/24, the Government's share of receipts is added to the retained (1-4-1) receipts.

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

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

29. 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. The estimate of depreciation of the HRA stock has been recalculated and results in a reduced contribution to MRR and increased flexibility within the HRA.

30. 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 year 20 (2043/44), 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.

31. Borrowing the Council borrowed £118.8m in 2012 for the original self-financing settlement, with phased maturities until 2036/37. The opening balance for these loans in 2024/25 is £102m. These are PWLB fixed-maturity loans with interest rates specific to each loan. Borrowing continues while revenue contributions are set to zero and increases the peak debt to £394.5m at year 2042/43. Any shortfalls in resources are assumed to be met from additional borrowing using PWLB fixed maturity loans. Interest rate projections are as outlined in paragraph 22. 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

32. 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.

33. The most significant movements to the plan relate to extending the CHBP to 2038/39, reduction to the depreciation charge which has increased opening and ongoing revenue balances, additional rental income from revised assumptions for annual increase to CPI + 1%, updated budget forecasts which include significant increases in the base budget for repairs costs.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Baseline Balance	**3,740**	**7,168**	**9,734**	**11,611**	**12,816**	**13,681**	**14,115**	**6,219**	**6,476**	**7,067**
CHBP Update	0	(288)	(430)	7	1,157	2,480	3,962	5,520	7,972	10,344
Existing Stock Capital	0	47	187	421	742	1,145	1,645	2,273	2,974	3,500
RTB	0	105	310	517	708	872	1,010	788	31	(809)
Balances and Depn.	6,502	12,069	15,215	18,349	21,686	25,189	28,830	32,591	36,483	40,461
2025/26 Inflation	0	(225)	(213)	(198)	(181)	(162)	(139)	(115)	(87)	(57)
Rents	0	30	264	840	1,811	3,220	5,099	7,531	10,451	13,900
Budget Updates	0	(5,892)	(10,654)	(15,316)	(20,176)	(24,978)	(29,837)	(25,605)	(30,817)	(36,025)
Business Plan 2024	**10,242**	**13,014**	**14,413**	**16,231**	**18,562**	**21,447**	**24,685**	**29,203**	**33,483**	**38,382**

Changes and impact of changes

34. This section outlines the changes and impact on the business plan.

35. The Council House Build Programme (CHBP) has been extended by 7 years to 2038/39, (previously 2031/32), with future expenditure of £250.8m, bring the total CHBP cost to £295m, to complete the delivery of 1,000 homes. The programme has been extended to spread the borrowing over a longer period and to reduce the borrowing requirements in the shorter term to support the Council strategy for prudential debt management. It should be noted however that extending the phasing of the CHBP does reduce the net rental income as properties are added later in the business plan. Reprofiling increases revenue balances by approximately £10m over the next ten years. The numbers of stock for the new plan reflect the latest budget assumptions and generate a lower rental income at the start of the plan.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
CHBP Update	0	(288)	(430)	7	1,157	2,480	3,962	5,520	7,972	10,344

36. The existing Planned Maintenance programme covers works to existing Council homes and totals £522.7m over 30 years. This is more than previously reported and the spend has been updated with a marginal reduction to costs in 2032/33. Consequently, balances have increased by £3.5m over the period.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Existing Stock Capital	0	47	187	421	742	1,145	1,645	2,273	2,974	3,500

37. There have been significant changes to RTB assumptions since December 2023. Overall, these changes reduce the balance by £0.8m over 10 years. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as revised) set out the treatment of Right to Buy (RTB) receipts as outlined in paragraphs 16-18. These changes result in an increase to balances of £1.2m.

38. Consultation on the next stage of reforming RTB was issued on 15 November 2024 and closes on 15 January 2025. It poses questions over the discounts available to RTB applicants, the timeframe for repayment of discounts and mechanisms for calculating and using receipts.

39. The effect of the changes to RTB regulations to date have been factored in the business plan model and increase the resources available to support plans in the short term (through the availability of the Treasury share). The latest consultation raises questions but does not make any proposed changes so no further changes have been assumed.

40. The consequences of changes to RTB discounts on future sales are unknown at this stage but assumptions have been made about the forecast sales based on the latest RTB application figures. Initially additional sales increase resources but forecast reductions in sales then reduce resources and consequently revenue balances. The changes result in additional sales of 38 (resulting from a surge in applications in 2024/25 following the budget announcement). Sales are then estimated to drop to 5 per annum from 2025/26. It is estimated that the reduction in sales will result in a reduction in balances of £2m as shown on the table below.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Changes to Policy	0	78	232	447	735	1,090	1,518	1,684	1,433	1,215
Forecast RTB Sale:	0	27	78	70	(27)	(218)	(507)	(896)	(1,402)	(2,024)
Total	**0**	**105**	**310**	**517**	**708**	**872**	**1,010**	**788**	**31**	**(809)**

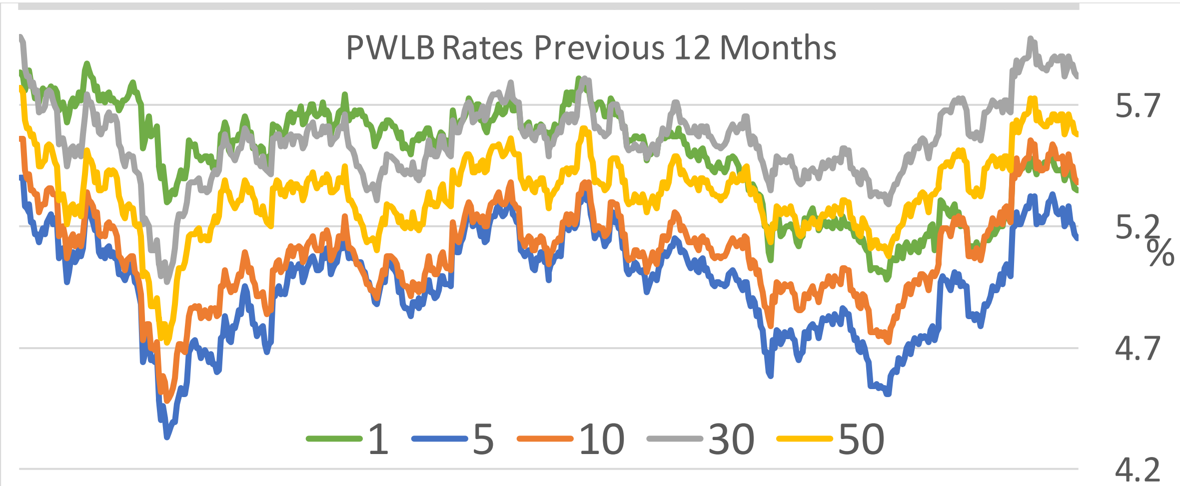
41. Internal borrowing has supported the HRA for 2024/25 financial year based on the 3 Month Sterling Overnight Index Average (SONIA). Internal borrowing of £52.9m in 2024/25 to meet resource requirements is included. Internal borrowing is charged at 5.1% and has been forecast at 4.7% from 2025/26.

42. From April 2025, external borrowing will be required. Despite concessionary HRA rates from the PWLB, rising capital requirements and borrowing rates have significantly impacted the business plan, based on the Council's latest projections. To allow for the Council to optimise its use of borrowing, no revenue contributions have been provided until year 20 of the plan and the additional revenue balances allow for the Council to support the financing costs.

43. To accurately reflect debt financing costs, year 1 borrowing is treated as internal borrowing (per current corporate treasury practice), while 2025/26 is planned as a 30-year PWLB loan to benefit from the concessionary HRA rate until March 2026. Future borrowing is assumed to be external, with a 3.6% annual charge.

44. Whilst borrowing to support capital expenditure, the Council plans to refinance maturing external loans until 2036/37 and assumes no loan repayments, except for £59m of maturing self-financing loans after year 20, to be met from balances. Additional borrowing in years 1-20 is assumed to be long-term, not requiring repayment or impacting flexibility for future development.

45. It should be noted that interest rates have fluctuated over the past 12 months and are not falling to the levels previously anticipated by some commentators. Therefore, it may be prudent to take shorter term borrowing in anticipation of rates falling and refinancing those loans at lower rates. The table below illustrates how rates have fluctuated over the past 12 months.



46. A depreciation review was carried out in September 2024 and backdated to the financial year 2022/23. This reduced the depreciation charge to £8.7m from £12m and has had a positive impact on the opening balance of the HRA which has been restated. A positive impact of this is the amount of interest earned on the higher HRA balance. It is a regulatory requirement that a componentised depreciation charge is made to the revenue account and added to the capital (Major Repairs) Reserve. This change has contributed to higher opening balances on the reserve account of £6.5m. It has also increased the revenue balance by £40m over the next 10 years which supports additional borrowing throughout the plan. As this is just a transfer of resources between revenue and capital, this leads to a reduction in future MRR balances, which in turn reduces the previous provision for the long-term repayment of debt.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balances and Depreciation	6,502	12,069	15,215	18,349	21,686	25,189	28,830	32,591	36,483	40,461

47. Forecast inflation for 2025/26 included in the approved model was 3.0% for RPI and 2.0% for CPI. These are updated in line with the September indices in the current plan to 2.7% and 1.7%. The refreshed plan has been updated with the September inflation indices which are used for regulatory (and therefore modelling) purposes for the following year. CPI which is used for rent regulation is 1.7% for 2025/26 (down from 2% on the previous model) and 2% thereafter in line with the Government target. RPI which is used for RTB attributable debt calculations is also used as the underlying inflation applied to the business plan and is 2.7% for 2025/26 (down from 3% on the previous model) as per the September index and is assumed as 3% thereafter (assuming an average variance to CPI of about 1% in recent years).

48. Rents are to be increased by CPI + 1% (2.7%) from 2025/26 which means that on the previous model they would have been assumed as increasing by 3% from 2025/26. A lower than anticipated September CPI has had a negative impact on future income.

49. The table below illustrates how inflation for 2025/26 reduces balances as income loss from lower rents is greater than the reduction to expenditure, with a net impact on balances of £57k over ten years to 2032/33.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2025/26 Inflation	0	(225)	(213)	(198)	(181)	(162)	(139)	(115)	(87)	(57)

50. Rents projection for rental income in the business plan has been updated for the latest stock data and allowance for the relet of properties to new tenants at the formula rent level.

51. Social rents are set at the formula rent (which reflects the size, value and location of the property. Formula rent caps continue to apply with flexibility of up to 5% (10% for supported housing) where there is clear rational for doing so. Actual rents are increased in line with the Government Rent Standard. When re-letting to new tenants the Council can apply the formula rent.

52. The latest consultation paper on future increases to social rents was issued on 30 October 2024 and closes on 15th January 2025. Rental increases in this latest version of the business plan have been assumed at CPI + 1% for the next ten years in line with pre budget reports. This increases balances by £14m over 10 years.

53. The Government consultation proposes CPI + 1% for five years from 2026/27 (to 2030/31) but is seeking views on extending this period.

54. For the purposes of projection, CPI is assumed as 1.7% for 2025/26 and 2% thereafter in line with the Government target.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Rents	0	(5,892)	(10,654)	(15,316)	(20,176)	(24,978)	(29,837)	(25,605)	(30,817)	(36,025)

55. The model has been updated with the latest forecast for 2024/25 which includes updates for additional repairs costs along with a preliminary budget for 2025/26 with future increases limited to CPI only until 2033/34. This update reduces balances by £36m over ten years.

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33	2033.34
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Budget Updates	0	(5,892)	(10,654)	(15,316)	(20,176)	(24,978)	(29,837)	(25,605)	(30,817)	(36,025)

Model Outputs and Analysis

56. 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

	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33
	£000	£000	£000	£000	£000	£000	£000	£000	£000
CAPITAL EXPENDITURE									
Major Works & Improvements	15,848	15,309	14,941	15,538	16,364	16,856	16,629	17,027	15,449
Development Schemes	20,149	25,128	42,854	24,189	16,787	6,121	6,071	6,071	14,778
Total Expenditure	**35,997**	**40,437**	**57,795**	**39,727**	**33,152**	**22,978**	**22,700**	**23,098**	**30,227**
FINANCING									
External Borrowing	0	23,392	37,623	27,112	19,607	13,031	12,365	12,408	18,239
Internal Borrowing	16,370	0	0	0	0	0	0	0	0
RTB Receipts*	2,013	(31)	(28)	(24)	(21)	(17)	(13)	(8)	(4)
Retained Receipts	10,332	777	802	827	854	881	909	938	968
Grant	1,854	2,960	7,162	2,940	810	0	0	0	420
Other Capital Receipts	952	1,517	3,494	100	3,120	0	0	0	507
Major Receipts Reserve	4,475	12,823	8,742	8,772	8,781	9,082	9,438	9,761	10,096
Total Financing	**35,997**	**41,438**	**57,795**	**39,727**	**33,152**	**22,978**	**22,700**	**23,098**	**30,227**

**Under the current RTB regulations, the forecast reduction in sales means that additional resources are required to meet capital expenditure.*

57. The capital programme includes the CHBP with £250.8m for 1,000 homes and £522.7m for existing housing over 30 years. No revenue contributions are made until year 20 to optimise borrowing. These additional balances help finance costs while supporting capital expenditure. The Council plans to refinance maturing loans and cover shortfalls with additional borrowing. Year 1 borrowing will be internal, following current treasury practices, and Year 2 borrowing will be a 30-year PWLB loan at a concessionary rate until March 2026. Future borrowing is assumed at 3.6% annually.

58. There was a surge in the number of RTB applications, with discounts calculated under the previous arrangements before the £30k cap on 21 November 2024 following the budget announcement. Forecasts show higher sales and receipts in 2024/25, followed by a decline once the reduced discount is applied. The additional receipts are delayed until 2025/26 so original borrowing plans are maintained, resulting in reduced use of the Major Repairs Reserve (MRR) in 2024/25, with the remainder allocated to 2025/26. Grant and other capital receipts fund the CHBP. The Council plans to fully utilise retained receipts and balances before the new financial freedoms expire in

March 2026. This approach eliminates any liability for repayment or interest throughout the business plan.

59. The table below shows the balance and forecast use of retained RTB receipts that are used to support the CHBP each year. The business plan includes an increase in forecast RTB sales because of an increase in applications that were received after the budget announcement. All receipts can be used to support eligible expenditure. Ongoing annual forecast sales are lower, which would have previously resulted in no retained receipts. However, the Autumn Budget allows the Government to forgo its share of receipts, adding them to the retained receipts and ensuring a steady level of retained funds.

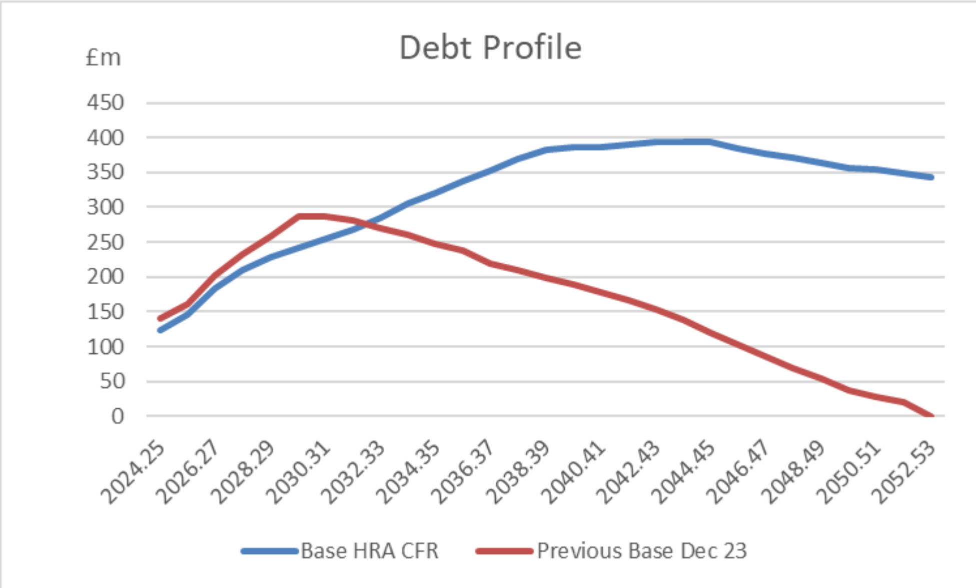
Year	Balance £000	Retained receipts £000	Used to support CHBP £000
2024/25	6,026	4,306	10,332
2025/26	0	777	777
2026/27	0	802	802
2027/28	0	827	827
2029/30	0	854	854

60. The chart overleaf shows how the debt profile on this latest version of the business plan compares to the previous model. This shows that the level of debt has gone up substantially and peak borrowing has increased and remains higher for an extended period which means the profile is no longer that of a repayment model.

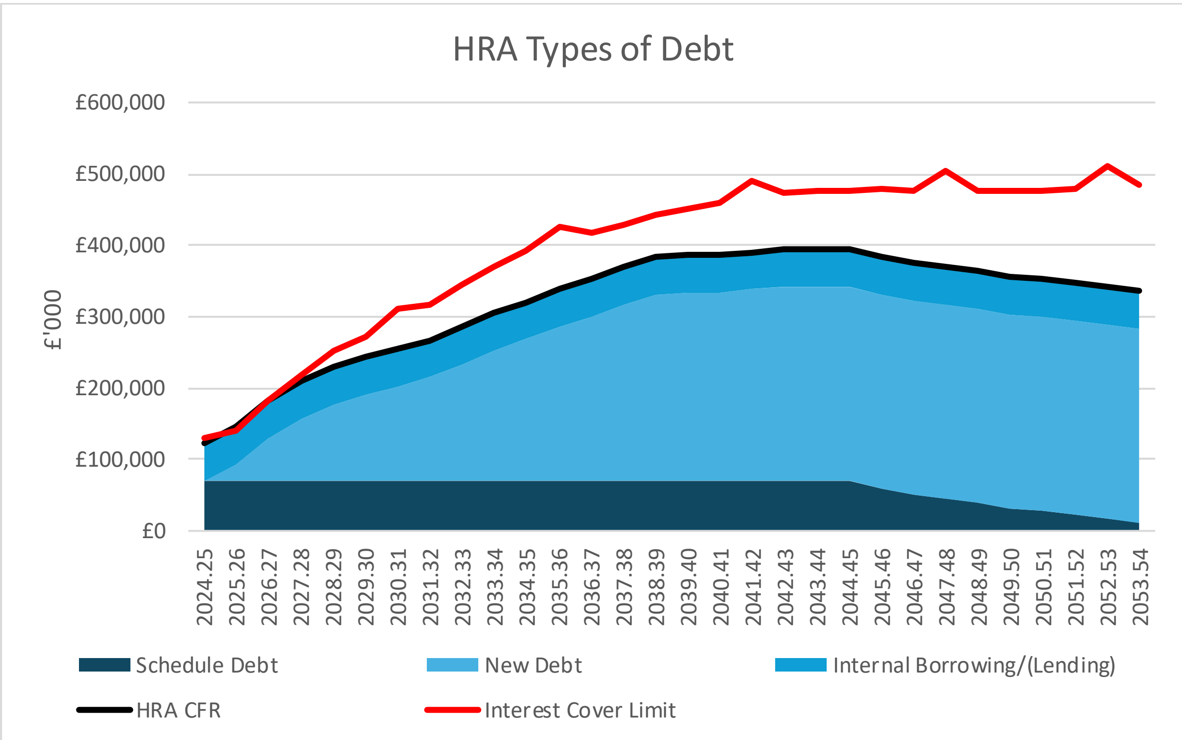
61. The reduction in depreciation charges have increased revenue balances and allows for borrowing throughout the plan but removes the future MRR balances that provide for the repayment of debt. As the CHBP has been extended, the requirement to borrow is initially less than it was before, but borrowing is required for a longer period. Higher revenue balances are available to repay debt in future years.

62. The debt profile has also changed due to other adverse factors that have affected local authorities including the restriction of rents, additional statutory health and safety requirements, increases in interest rates and increased building and energy costs. This means that there are higher levels of borrowing and reduced levels of repayment.

63. Borrowing continues while the RCCO is set to zero and increases the peak debt to £394.5m. After this time debt is repaid at maturity and the debt outstanding at year 30 is £335.5m



64. The chart below shows the different types of debt that make up the debt profile and shows that although debt is higher, it remains below the maximum limit for interest cover. Internal and scheduled debt are included, but most of the debt comprises new debt which has increased for the reasons outlined in the section above.



65. The Council's debt management strategy is to provide for repayment of debt once there are sufficient resources available in the plan. 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. which commences in 2044/45. 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.

66. Additional 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

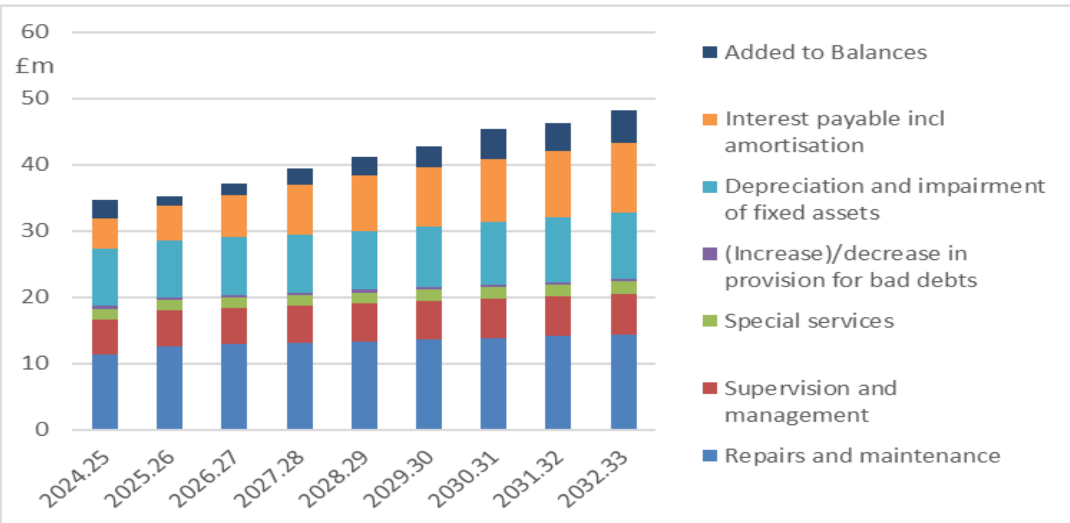
additional borrowing is used to resource the CHBP and programme of works for existing stock (including the decarbonisation plans) until 2042/43 after which revenue balances are used to support the capital programme and no further borrowing is required. The additional annual borrowing requirements until 2042/43 total £288m. During this time, the outstanding loans undertaken to meet the cost of self-financing are refinanced at maturity.

<u>Revenue Projections</u>

	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									
Dwelling Rents	31,470	31,939	33,885	35,949	37,616	39,112	41,444	42,174	43,892
Voids	(253)	(162)	(174)	(186)	(196)	(205)	(218)	(223)	(233)
Net Rents	31,217	31,778	33,711	35,763	37,420	38,907	41,226	41,951	43,658
Non Dwelling Rents	425	449	462	476	491	505	521	536	552
Charges for services and facilities (net of voids)	1,211	1,228	1,265	1,303	1,342	1,383	1,424	1,467	1,511
Contribution torwards expenditure	1,160	1,160	1,195	1,231	1,268	1,306	1,345	1,385	1,427
Other Income	93	93	96	99	102	105	108	111	115
Expenditure									
Repairs and Maintenance	(11,367)	(12,612)	(12,851)	(13,095)	(13,344)	(13,597)	(13,855)	(14,117)	(14,385)
Supervision and Management	(5,170)	(5,324)	(5,425)	(5,528)	(5,632)	(5,739)	(5,848)	(5,959)	(6,072)
Special Services	(1,729)	(1,638)	(1,671)	(1,704)	(1,738)	(1,773)	(1,808)	(1,845)	(1,881)
(Increase)/ decrease in provision for bad debts	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)	(370)
Depreciation and impairment of fixed assets	(8,680)	(8,680)	(8,680)	(8,772)	(8,781)	(9,082)	(9,438)	(9,761)	(10,096)
Net cost of services	6,790	6,085	7,734	9,403	10,758	11,645	13,305	13,398	14,458
Interest payable incl. amortisation	(4,545)	(5,212)	(6,341)	(7,553)	(8,425)	(9,044)	(9,531)	(9,985)	(10,551)
HRA investment income	526	527	424	480	552	637	744	865	992
Surplus/ (deficit) for the year	2,771	1,400	1,817	2,331	2,885	3,238	4,517	4,280	4,899
STATEMENT OF MOVEMENT ON THE HRA BALANCE									
Surplus/ (deficit) for the year	2,771	1,400	1,817	2,331	2,885	3,238	4,517	4,280	4,899
HRA Balance Brought Forward	10,242	13,014	14,413	16,231	18,562	21,447	24,685	29,203	33,483
HRA Balance Carried Forward	13,014	14,413	16,231	18,562	21,447	24,685	29,203	33,483	38,382

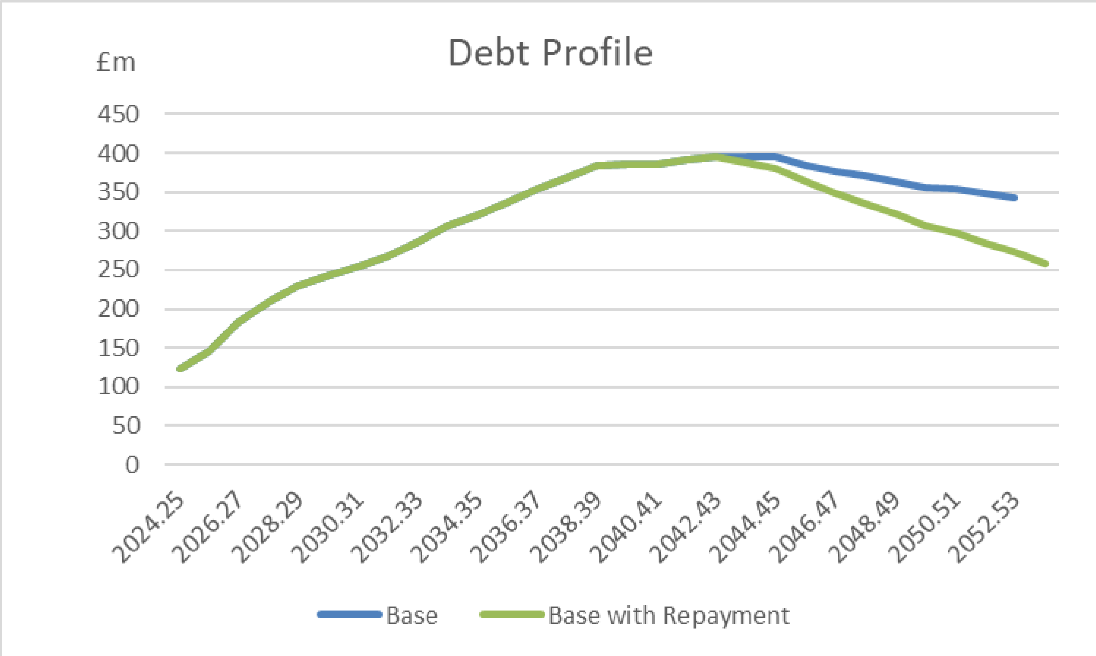
67. The table above summarises the HRA budget over the next 9 years and shows a projected surplus in 25/26 of £1.4m. There is a spike in the surplus in years 24/25 and in 30/31 because there is an extra rent week in those years. The table shows the cost of borrowing increasing which reflects the additional investment in the CHBP. However, there is sufficient operating income to be able to meet these costs and retain an annual surplus. The HRA balance increases to £74m at year 30 having already repaid £59m self-financing debt at maturity, reducing our debt down to £335.5m at year 30.

68. The table below shows the use of HRA income by type of expenditure.



Repayment of Debt

69. The business plan has calculated that using the assumptions outlined in this report, a maximum repayment of debt of £76.5m is possible and the chart below shows what would happen to the debt curve as a result (green line).



70. The table overleaf shows how the revenue balance would be affected if an additional debt repayment of £76.5m is applied. This shows that debt would reduce to £259m at year 30. The minimum interest cover ratio would remain unaffected. It should be noted however that this provides no capacity for any additions to the plan, limits the scope to make any further changes and does not allow for any early repayment penalties on loans.

Business Plan	Revenue Balance at Year 30 £m	Peak Debt £m	HRA CFR at Year 30 £m	Minimum Interest Cover Ratio %
Base	73.874	394.500	335.500	127%
Base with Repayment after 2042/43	1.314	394.500	259.000	127%

Risks & Opportunities for Mitigation

71. Social rents are regulated by the policy statement and Rent Standard, with annual increases limited by regulations. As a result, charges for existing tenants cannot exceed the allowed increase. The latest consultation invites feedback on the proposed 5-year settlement for maximum increases, starting in 2026/27. This business plan assumes rental increases of CPI+1% over 10 years in line with pre budget reports and to maintain the affordability of the plan. This might not be possible pending the outcome of the Rent Consultation.

72. The actual impact of changes to RTB (the reduction of the maximum discount to £30k) on sales volumes is not known at this stage and assumptions have had to be made

about forecast sales. Further changes could be announced once the RTB Consultation closes on 15 January 2025 which could also affect the business plan.

73. The Government plans to consult on a new Decent Homes Standard for rented sectors. The requirements and implications on the business plan are unknown and no changes have been included.

74. There is some uncertainty around interest rates, which have fluctuated over the past year and are not falling as much as anticipated. Given the latest PWLB business rate projections, it may be prudent to take out shorter term borrowing in anticipation of rates falling and exploring the possibility of refinancing at lower rates when loans mature.

75. The HRA currently benefits from a concessionary rate on PWLB borrowing which is equivalent to the PWLB standard rate less 60 basis points (0.60%). This rate was introduced on 15 June 2023. The Autumn Budget 2024 confirmed that the availability of this rate has now been extended to March 2026. It is not yet known whether this is to be extended any further.

76. There are several measures that can be taken to mitigate the risks identified and outlined above.

77. To ensure effective debt management decisions and business planning, key HRA representatives will be involved in treasury decisions. This will help to ensure a clear picture of business planning forecasts and the management of debt. Retaining revenue balances will help to support changes in financing costs.

78. Under current regulations, if the debt from RTB sales is lower than the assumed debt in the self-financing settlement, the allowable debt becomes negative, and this tends to offset the local authority (LA) share of receipts. In Wiltshire, however, the LA share goes to the General Fund so the HRA must raise additional funds to cover the negative debt and allocate the LA share. The Council could elect to shift the LA share to the HRA. If the Consultation Paper proposal to include the LA share with retained receipts is approved, the resources would only be available to the General Fund if the expenditure meets retention agreement terms.

79. Another option to mitigate the risk to the HRA is to adjust the CHBP, providing more flexibility for prudential debt management by aligning the programme with resources that may change due to Government policy changes. This could involve further revisions to the timing or level of the programme.

80. Use of Formula Rent Flexibility provides another opportunity to mitigate risk. Formula rent calculations consider the January 1999 value, bed size and location. Flexibility of up to 5% on general needs accommodation or up to 10% on supported accommodation where there is clear justification for doing so. Some local authorities are using this flexibility based on funding of decarbonisation works where it will reduce energy costs for tenants. It’s unclear how this is viewed by the Social Housing Regulator. This would be beneficial to the business plan and would be unaffected by any additional constraints applied to future rent increases.

Rent Consultation and Scenario Analysis

81. The Rent Consultation invites feedback on a proposed new Direction from the Secretary of State to the Regulator of Social Housing concerning social housing rent policy and focuses on the implementation of a new rent policy effective from 1 April 2026 and closes on 23 December 2024.

82. The consultation presents various options for review but proposes rents are increased by CPI + 1% until 2030/31 (a 5-year settlement). This could represent the worst possible scenario to the Council and would still allow the Council to continue with its existing plans but would dip below the minimum interest cover ratio (as shown in table 9.4.1).

83. Prior to the Budget, it was reported that the Government was planning to allow rent increases of up to CPI + 1% for the next 10 years. This has been built into the base Business Plan model. The anticipated best-case scenario for rents would be ongoing increases of CPI + 1%. No guarantees of this type would be forthcoming from the Government, but it is useful to show the impact on the Council if this were to be realised.

84. The interest cover ratio shows how easily the HRA can pay interest on its outstanding debt and helps officers and Members determine the HRA's level of risk for future borrowing.

85. The table overleaf compares the base business model with best and worst-case rent assumptions.

Business Plan and Scenarios	Revenue Balance at Year 30 £m	Peak Debt £m	HRA CFR at Year 30 £m	Minimum Interest Cover Ratio
Base	73.874	394.500	335.500	127%
Base with Repayment	1.314	394.500	259.000	127%
Rent CPI + 1% to 2030/31	10.692	394.500	335.500	123%
Rent CPI + 1% to 2030/31 with Repayment	1.152	394.500	325.400	123%
Rent CPI + 1% throughout	1.406	394.500	99.480	127%

86. In the worst-case scenario, where rents increase at CPI + 1% until 2030/31 and then at CPI, borrowing and repayment levels remain unchanged as they are manageable, maintaining the business plan's viability. However, the lower rent income leads to a reduced interest cover ratio, falling below the 125% target. For comparison, both the base model and the CPI + 1% to 2030/31 models are tested with repayment profiles that use available revenue to support the required borrowing repayments.

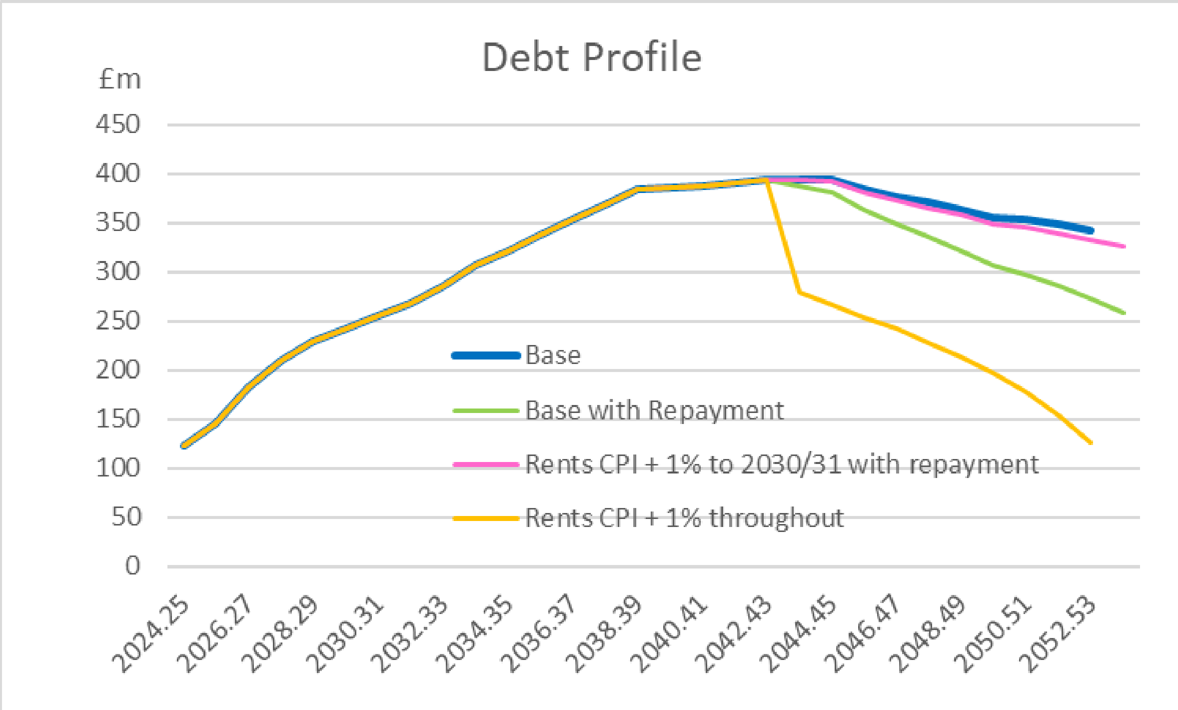
87. In the best-case scenario, where rents increase by CPI + 1% throughout the Plan, income from rents rises after year 10, reducing borrowing requirements. With an annual surplus, additional debt repayments can be made. While the scenario assumes maximum debt repayment each year to minimise debt, the Council may choose to defer loan repayments to avoid early repayment penalties.

88. The graph overleaf shows how the debt profile of the base business plan compared to each of the following scenarios:

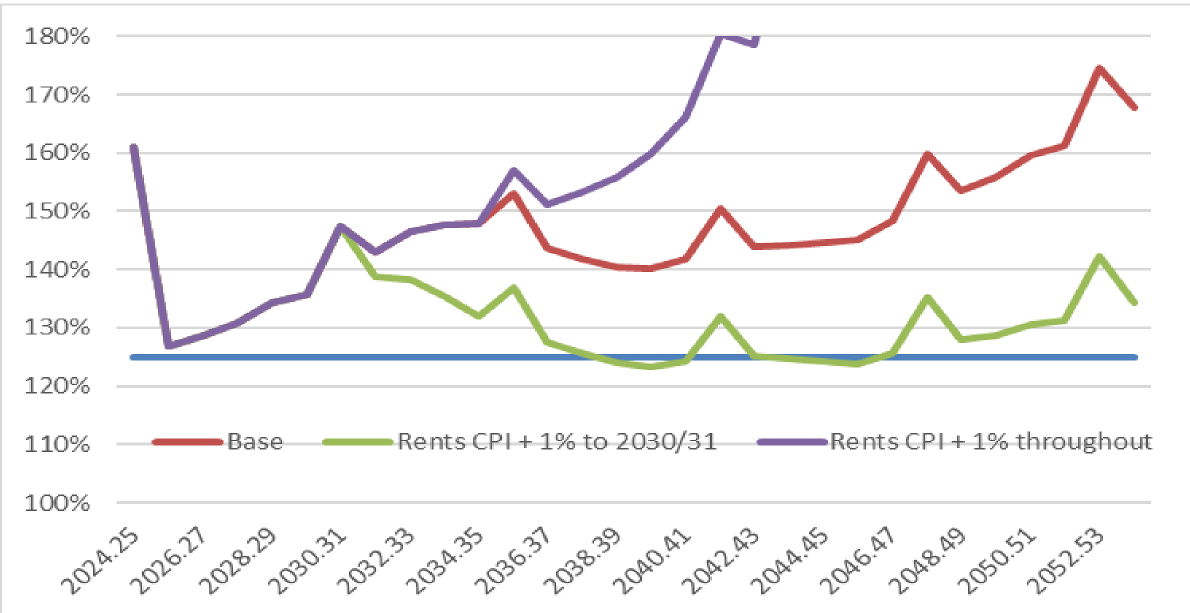
- Base (green line) plus additional £76.5m debt repayment (applied from year 20).
- Worst case (pink line) rents of CPI + 1% to 2030/31 without additional debt repayment.
- Best case (yellow line) rents of CPI + 1% throughout

89. The base and worst-case (CPI + 1% increases to 2030/31) models have the same borrowing requirements, and repayment plans for maturing self-financing loans.

90. In the best-case scenario (CPI + 1% throughout), the increased rental income enables debt repayments to begin in year 20, significantly reducing the outstanding debt to £99.5m by year 30.



91. The graph below shows how the interest cover is affected by each of the different scenarios:



92. This chart shows that the best-case scenario which has increased rents, generates an increased surplus from 2035/36 (year 12). The increased surplus, with the same debt level as the base model, boosts the interest cover ratio (ICR), which rises above 180% after 2042/43 (year 19).

93. The worst-case scenario (CPI+1% to 2030/31 only) has lower rents from 2031/32 compared to the base model and consequently lower operating surpluses.

94. In year 15 (2038/39), the ICR drops to 124%, then to 123% in year 16 (2039/40), and back to 124% in year 17 (2040/41). Although the ICR rises in year 18 (2041/42), it falls below the target again, reaching 123% (just shy of the 125% minimum target) in years 21 (2044/45) and 22 (2045/46). No further changes have been made to this model, as other business factors will likely impact the analysis before these dates.

95. Scenarios that include debt repayment raise the ICR by reducing financing costs. However, the repayments in the CPI + 1% to 2030/31 model are not enough to impact the ICR in years 21 and 22, keeping it below 125%.

Business Plan review conclusions

96. The base business model assumes rental increases of CPI+1% for 10 years from 2026/27 reducing to CPI thereafter and shows a sustainable long term HRA that supports the Council's current CHBP and existing stock capital plans and revenue balances are maintained above the minimum required level throughout with a balance of £74m at the end of the plan. This includes repayment of £59m of self-financing debt at maturity and results in a minimum level of interest cover of 127% in 2025/26, rising thereafter.

97. Several updates have been made to the business plan. Crucially, borrowing has increased significantly due to various factors as outlined in the report. However, the depreciation charge is now much lower, resulting in higher revenue balances, which makes financing this level of debt affordable. The rephasing of the CHBP has helped ensure the plan remains affordable. If it is decided that the debt should be reduced, options are available, such as further rephasing of the CHBP or reducing spending on repairs and maintenance.

98. The scenario analysis indicates that up to £76.5m in additional borrowing repayments could be made after 2042/43, reducing debt to £259m and leaving a £1.3m revenue balance by year 30, with a minimum interest cover ratio of 127% (excluding early repayment penalties). Increasing rents by CPI + 1% throughout the plan would boost income from year 10, reduce borrowing, and maintain a minimum interest cover ratio of 127%. If rent increases are limited to CPI + 1% for only 5 years, followed by CPI, the minimum interest cover ratio would fall to 123%, below the 125% required. This analysis shows that even in the worst-case scenario, the ratio only slightly dips below 125%, with several options available to improve the plan's affordability.

99. 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.

Revenue Budget Estimates for 2025/26

100. Appendix 1 provides an overview of the proposed revenue budget for 2025/26.

101. 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:

    i. Two cleaning posts have been created to provide a reactive in-house service to tackle damp and mould cleaning, the cleaning of voids, and the cleaning of communal areas. This work is currently delivered via contractors, and the new reactive service will deliver a cash saving as well as being more responsive.

    ii. Salary budgets have been increased by £0.342m, mainly to reflect estimated pay inflation of 2.5%, the increase to the main rate of secondary Class 1 National Insurance (employer) contributions from 13.8% to 15% and the reduction in the Class 1 National Insurance (employer) contribution threshold from £9,100 to £5,000 per annum. Although government have indicated support for local authorities to fund these increased charges, it is assumed no support is available to the increased costs to the HRA.

- As outlined in paragraph 46 a review of depreciation was carried out during 2024/25 and updated the estimated useful lives of some of the assets which means that the forecast for depreciation is now a lot lower than budget, releasing £3.420m which can be used to support other areas in the HRA.

- The budgets for interest payable have been increased by £2.490m and interest receivable by £0.198m so that they are more in line with the latest estimates based on increased rates and the CHBP borrowing requirements.

- The budget for Repairs & Maintenance has been increased by £2.494m. The service is projecting an overspend against budget in the current financial year due to several factors. These include efforts to reduce damp and mould, ongoing works to address a historical backlog of void dwellings, a rise in the number of incoming repair requests, increased activity to ensure landlord compliance in response to growing demands from the SH regulatory agenda, as well as significant inflationary pressure on construction-related costs.

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

Dwelling Rental Income

102. 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 2025/26 meaning that rents can be increased by a maximum of CPI + 1% in 2025/26. The historical impact of this has negatively impacted HRA balances.

103. Therefore, in accordance with the Regulator of Social Housing's Rent Standard, it is proposed Dwelling Rents for 2025/26 will increase by CPI+1%. Table 3 below shows the average weekly rent for existing and new tenants.

Average overall rent increases for two and three bed houses

	2024-25	2025-26
2 bed	£108.24	£111.16
2 Bed Increase/ Decrease %	7.7%	2.7%
3 Bed	£118.05	£121.31
3 Bed Increase/ Decrease %	7.7%	2.7%
Average	£108.38	£111.36
Average Increase/ Decrease £	£7.75	£2.98

104. 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 2025/26 all 24 local authorities in the group are proposing to increase their rents by CPI + 1% in 2025/26. Using 2024/25 data, Wiltshire has mid-range of average weekly rents ranking at 12 out of 24 providers.

105. 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.

106. 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.

107. 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.

108. 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. Over the last 12 months, demand has stayed consistent.

109. The new Rent Sense software system used by the Income Team which uses analytics to rationalise rent arrears accounts, is showing excellent results in reducing arrears. At the time of writing this report, the Support Team have dealt with 499 support cases so far, this financial year with 116 cases currently being worked on. In the year to date the team have secured financial gains for our tenants in the amount of £0.380m.

110. Additional assistance is 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. Any funds remaining at the end of the financial year are held in reserve. There was £16,293 held in reserve at the end of the financial year 2023/24.

111. It should also be noted, that approximately 62% 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 December 2024). Of the remaining 38% approximately 23% are in receipt of benefit that partially covers their rent meaning that only 15% of tenants will be affected by the full increase. 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.

112. Benefits increases for 2025 are as follows, state and pension credits; 4.1%, inflation linked benefits and tax credits; 1.7%.

Capital Programme

113. The proposed Capital Programme 2025/26 is set out in Appendix 2.

<u>Planned Refurbishment of Council Stock</u>

114. The planned maintenance programmes for the housing stock (kitchen, bathroom, roof, window replacement, energy efficiency etc) continue to be delivered against budget. New contracts commenced in 2023/24 and work programmes across all maintenance disciplines have been developed.

115. 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.

116. The service continues to explore the use of electric vehicles for the service and now has 4 small fully electric vans in operation. This approach will continue to be explored with further electric vehicles joining the fleet as the technology and carrying capacity improves.

117. Minor refurbishment projects continue across the Sheltered Schemes, on a programme that will be delivered over the next 3-4 years.

Council House Build Programme

118. The current Council House Build Programme was a 10-year delivery programme from 2020/21 to provide 1,000 additional owned and managed Council Homes. This has now been extended to a 17-year programme, for reasons stated earlier in the report. It should be noted that earlier phases of the programme delivered 208 properties. To date the current programme has delivered 150 properties with over 400 in the pipeline.

119. The Programme has had to be revised and will now deliver circa 40% land led developments where the Council will manage the development of sites from project inception through to occupation. A variety of delivery methods are being used, with the delivery model for general needs housing as offsite MMC construction zero carbon homes. The Council have developed 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.

120. The remaining 60% (as recently revised) 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 a range of needs including general needs, care leavers, adults with additional needs, rough sleepers and refugees.

Financial Implications – Section 151 Officer Commentary

121. 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 twofold impact firstly in this financial year and ongoing impact, in all future financial years.

122. The plan includes use of the Major Repairs Reserve (MRR) and revenue. The HRA can finance the additional borrowing required, fully finance this borrowing and self-financing loans, over the course of the plan leaving a balance at the end of the plan of £74.0 million.

123. The Interest cover ratio is achieved and compares the net cost of services to the interest payable. The Interest cover of 125% is achievable assuming the rents are set at the recommended level.

124. 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. It should be noted that timing of the CHBP is within our control and will be under review to ensure that

debt is affordable. As noted in the report, the in year review will provide modelling options to aid decision making around the level of acceptable debt. We will continue to pursue grant opportunities and access S106 monies to keep our level of debt as low as possible.

125. The review of depreciation has led to a much lower annual depreciation charge and greatly increased the level of balances in the HRA revenue reserve with an HRA revenue reserve opening balance of £10.242m for 2024/25. This change means that the major repairs reserve (MRR) will be used up a lot quicker but higher revenue balances will help with the financing of debt and means that the HRA will be earning more interest on the higher balance.

126. There have been several changes regarding Right to Buy (RTB), and uncertainty remains about the impact of reduced discounts on the volume of sales going forward. Officers are awaiting the outcome of the consultation, which closes in the New Year, and will review the plan to ensure the assumptions built into the business plan remain acceptable. The number of RTB sales will also be closely monitored against what has been assumed in the plan. Similarly, the outcome of the rent review, which closes later this month, is highly anticipated and it is hoped that the restrictions on rent increases will not exceed the assumptions made. However, if they do, the plan will need to be updated to ensure it remains affordable.

127. 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 challenge and change in relation to construction 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.

128. Risk remains within the assumptions included in the Business Plan; however, the Council has flexibility on some of the decisions at certain points during the Business Plan period. Future modelling supporting the Business Plan will include sensitivity analysis and an understanding of timing of decisions, such as when a change to the CHBP can be made (due to significant lead in times of such a programme) so that it opportunities are not missed.

Safeguarding Implications

129. 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

130. 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

131. 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.

Equalities Impact of the Proposal

132. 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.

133. The provision of social housing is by its nature supportive of the most vulnerable people in society in particular regarding 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.

134. 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.

135. 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

136. 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.

Workforce Implications

137. There are no changes proposed within this report which would have workforce implications.

Legal Implications

138. The Local Government and Housing Act 1989 mandated the HRA to be a separate ‘ring-fenced’ account, distinct from the General Fund. This restricts items in the HRA to those with statutory provision. 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.

139. 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.

140. 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.

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Overview and Scrutiny Engagement

142. The Council’s Housing Board discussed this report in December 2024 and recommendations were put forward to Cabinet. In so doing they discussed the new higher level of borrowing required to deliver the business plan over the 30 year period and welcomed the anticipated further review expenditure in 2025 to seek to review the optimum delivery of the development programme with a view to reducing planned debt.

James Barrah - Director of Assets
Lizzie Watkin - Corporate Director of Resources (s.151 Officer)
Report Author: Marie Taylor, Head of Finance Children's & Education

Appendices

Appendix 1 - Revenue Budget 25/26
Appendix 2 - Capital Budget 25/26

Background Papers

Future social housing rent policy - GOV.UK
Reforming the Right to Buy - GOV.UK