HOUSING AND REGENERATION SCRUTINY COMMITTEE – 27TH FEBRUARY 2023

SUBJECT: HOUSING REVENUE ACCOUNT BUSINESS PLAN 2023/24

REPORT BY: CORPORATE DIRECTOR OF SOCIAL SERVICES AND HOUSING

1. PURPOSE OF REPORT

For Members to consider and take a view on the Housing Revenue Account (HRA) Business Plan 2023/24 prior to approval at Cabinet on 8th March 2023, and also recommend that Cabinet submit this report to Council to request an extension to the borrowing cap, which forms part of the recommendations on this report. The HRA Business Plan is an annual requirement from Welsh Government (WG) as part of the annual submission of the Major Repairs Allowance (MRA) grant application.

2. SUMMARY

2.1 Following the publication by Welsh Government (WG) in its National Housing Strategy, 2001, which enforced all social landlords to meet the Welsh Housing Quality Standard (WHQS) on all its tenanted stock, WG introduced in 2002, a requirement for all Welsh authorities to develop and produce a Housing Business Plan which would be scrutinised by WG on an annual basis. The Housing White Paper published in May 2012 reaffirmed the WG commitment to the WHQS and set the revised target for all social landlords to meet it by 31st December 2020, which was extended to 31st December 2021 due to the impact of Covid-19. Caerphilly Homes achieved full compliance on all its housing stock by the deadline.

2.2 The Business Plan is a long-term 30-year plan for managing an organisation's assets and financing the necessary investments. It is a key element in ensuring the effective long-term management and maintenance of the Councils housing stock. It is essentially a financial forecast reliant on key assumptions which identifies the resources and funding required to meet the WHQS and maintain it thereafter. In addition, more recently WG have requested a business plan narrative to accompany the financial business plan, and this is also a requisite for the annual application of the MRA funding.

2.3 Now that all the Local Housing Authorities have met the WHQS, there is a requirement for WG to develop an updated version of the standard so that LHA's can maintain its properties to the standard whilst incorporating new challenges. There has been an independent summative evaluation of WHQS in June 2021 and WG intend to launch WHQS 2 in 2023 following a period of consultation during the Summer 2022. The responses are currently undergoing detailed analysis. One of the biggest changes in the new standard will be around affordable warmth and decarbonisation, and WG are considering how they can support delivery alongside a new Optimised Retrofit Programme (ORP). In the 2023/24 Business Plan, however, WG acknowledge that LHA's will not have firm decarbonisation targets or measures to work with, and therefore do not expect comprehensive costed models for decarbonisation in this year's plan. Until the new WHQS 2023 is agreed, published and comes into effect, the

existing WHQS is extant and is the minimum that must be maintained. Therefore, borrowing that may be anticipated to meet the new standard is not included in this report.

2.4 Members may recall earlier reports regarding the HRA Business Plan as part of the ballot process together with commissioning stock condition surveys and determining borrowing levels. The borrowing level for WHQS was initially agreed by Council at £61m in 2011 and was subsequently revised as the WHQS programme progressed. In 2014, the borrowing was revised to £55m, and in 2019, the borrowing profile was amended to £75m to include funding for the first draft of our ambitious new build programme. Council agreed in July 2022 to increase the borrowing level further to £90m as the new build programme started to be implemented. Of this £90m, £40.9m has been taken up for the WHQS programme leaving £49.1m available initially towards increasing housing supply. Further development programmes are likely to require additional borrowing, together with the impact of the unprecedented inflation increases. The £90m cap did not allow for increases in costs across the housing service, which ultimately came later in the year after the 2022/23 Business Plan was submitted.

2.5 As we have now achieved the target of meeting WHQS to all our eligible stock, it is thought an opportune time to report the HRA Business Plan annually to members going forward as we progress onto developing our own social housing stock. This has become more important as we have experienced such volatility within the market in terms of material costs, supply and labour resources as a result of the Covid-19 pandemic and Brexit, together with unprecedented inflation rates, which could impact significantly on our new build commitments and the ambitious decarbonisation agenda that is ahead of us.

2.6 Members will recall the Housing Revenue Account Charges 2023/24 report that was presented to Housing & Regeneration Scrutiny Committee on the 29th November 2022 and Cabinet on the 14th December where 6.5% rent increase was agreed for 2023/24. This report analysed some costing scenarios against the 2022/23 Housing Business Plan that had materialised since the plan was submitted to WG in March 2022. This included the higher than anticipated pay award and the impact on the increases for construction and material costs. This evidenced, that with a lower than inflation rent increase, which was agreed at 6.5%, that a further £10m would need to be borrowed to maintain current services and keep momentum with the new build programme.

3. RECOMMENDATIONS

3.1 That members on this committee acknowledge and consider the 2023/24 Housing Business Plan prior to its approval by Cabinet on the 8th March 2023, and its submission to WG by the 31st March 2023.

3.2 Members recommend that Cabinet approve the submission of this report to Council to request an extension of the HRA borrowing cap to £100m as a result of higher than anticipated inflation to maintain services and to progress with the new build programme. A provisional date for Council has been set for 23RD May 2023.

4. REASONS FOR THE RECOMMENDATIONS

4.1 The HRA Business Plan has to be submitted annually to Welsh Government as part of the Major Repair Allowance (MRA) funding grant submission. Failure to submit a viable Business Plan as part of the application would be interpreted as failure to comply with the MRA grant criteria, and the grant is likely to be withdrawn.

4.2 The Housing Business Plan relies on key assumptions to remain viable and in recent years has become increasingly volatile due to the Covid-19 pandemic and Brexit. This has been compounded more recently with the extraordinary increases in inflation. It is therefore prudent

that members are formally updated on the financial position of the HRA investment programme as part of the annual grant submission to WG and to be kept up to date on the performance of the HRA in relation to other new priorities to be delivered from the HRA.

4.3 Borrowing is necessary to be able to fund the new build programme and will be reviewed annually. The building of new affordable homes is a corporate commitment, and a Welsh Government directive.

5. THE REPORT

5.1 The Major Repairs Allowance (MRA) is a capital grant for HRA assets to support Local Authorities to meet and maintain the WHQS. It cannot be used to repay debt, support borrowing, fund demolition costs, fund the day-to-day maintenance of properties, fund any properties acquired after April 2015, or for any properties held outside of the HRA.

5.2 LHA's must submit an application to WG each year for the MRA. The value of MRA for Caerphilly Homes is in the region of £7.3m. The deadline for the submission is 31st March 2023 and WG request the following documents to be included with the application:-

- An application form
- A full 30 year financial Business Plan
- Business Plan financial data summary
- New Build spreadsheet
- Business Plan narrative.

5.3 The HRA Business Plan is subject to detailed scrutiny by WG to ensure it is acceptable which means it must demonstrate:-

1. Maintenance of the WHQS
2. The HRA does not show a debit balance
3. Through stress testing the impact of positive and negative changes to key assumptions has been considered
4. An analysis of items included in the HRA certified to show it is in accordance with relevant legislation.

5.4 A Local Authority must inform WG by 31st March each year if it is unable to submit an acceptable Business Plan. The Authority will then be required to work with the support offered by WG to develop an acceptable Business Plan. Failure to do so will be treated as failure to comply with the MRA grant criteria and the grant is likely to be withdrawn.

5.5 Business Plans are owned by local authorities and are not prescriptive by WG. However, Caerphilly Homes uses a model adopted by Housing Finance Specialists (HFS) Ltd which has been sanctioned by WG. Most of the retaining Local Housing Authorities use this same model. WG also request a summary of the business plan as part of the MRA application, which is in a standard format to allow for ease of comparison against the minority of Local Housing Authorities who do not use the HFS model.

5.6 Section 76 of the Local Government and Housing Act 1989 requires that the Housing Revenue Account (HRA) cannot be set into a deficit. The Housing Business Plan is a working document and is constantly updated to reflect any changes in its original assumptions to ensure the HRA remains viable.

5.7 Once the HRA budget is set, this is added to year 1 of the 30-year Housing Business Plan, combined with the capital projections and a number of key assumptions. The plan is tested for viability in terms of its operating (revenue) account, level of reserves, capital account and its level of borrowing. Further assumptions are then made to project this position for 30 years.

5.8 Key assumptions in the plan are

- Inflation rates
- Interest rates/Financing Costs
- Rent increases or decreases
- Level of bad debts and voids
- Stock count
- Pay awards
- Financing costs

5.9 WG also require a number of sensitivity tests against the base plan which models different stresses around key risks of the plan over the next 10 years. Anything beyond 10 years has been acknowledged by WG as too difficult to provide accurate or meaningful analysis. The sensitivities are not prescriptive but LHA's are expected to consider global and local challenges and how this will impact on the HRA remaining viable, if the WHQS can still be maintained, and if borrowing remains affordable.

5.10 A template is also required that captures LHA's development and acquisition plans.

5.11 The HRA Business Plan for 2023/24 has made the following assumptions. Note that this shows only 5 years which are more realistic than a 30-year period. However, the appendices attached will show the impact these assumptions make over a 30-year period.

5.12 <u>Inflation rates</u>
Every year, as part of the Business Planning Guidance, WG advise LHA's to use 2% as a typical inflation rate based on the Retail Price Index (RPI). This year however, this has not been included in the guidance and WG have advised they are no longer prescriptive on the assumptions in the Business Plans but now request that they are clearly explained and justified. This is probably as a result of the volatile increase in inflation experienced nationally. The Bank of England forecast that from mid-2023 inflation will fall sharply, perhaps below target, and expect inflation to level close to the 2% target by 2025/26. This is from their expectation that the price of energy will not continue to rise so quickly due to Government intervention schemes, also the price of imported goods won't rise so fast as some of the production difficulties start to ease, and less demand for goods and services in the UK forcing prices to rise much slower. The Bank of England has also steadily increased interest rates to attempt to bring inflation down.

The inflation rates for the Business Plan are in line with inflation rates used for the Councils Draft Budget Proposals for 2023/24. Inflation is currently at its highest level in 40 years with Consumer Price Index (CPI) inflation peaking at 11.1% in 2022. For the reasons mentioned above, 5% general inflation has been factored into the Business Plan for 2023/24 followed by a return to the 2% target.

General Inflation for the Business Plan has been forecasted as follows:-

2023/24	5%
2024/25	3%
2025/26	2%
2026/27	2%
2027/28	2%

5.13 In addition to the above, an additional increase needs to be considered in respect of building materials which will affect the cost of our Planned programme, Response Repairs, and New Build programme. The increased global demand for construction combined with the complex impacts of the pandemic and Brexit, resulted in unprecedented shortage delays and increased prices for materials and labour across the economy. Whilst the impact is hard to

predict because it affects different material types, the industry suggests that although the material supply issues has eased, prices remain high across a range of materials. Contractors are also struggling to absorb the additional cost as well as the impact from a lack of skilled workers forcing wage costs up. The Building Cost Information Service (BCIS) has predicted a 16% rise from Q2 2022 to Q2 2027 which is an average increase of 3.2% per year. Although this does not affect all materials it is felt prudent to increase 2023/24 to 5% to also allow for the impact of the energy price increases which is likely to affect the cost of materials further in the short term. A further 2% has therefore also been included in addition to the rates above for 2024/25 to 2027/28. Further testing for higher increases are factored into the sensitivity analysis on 5.29 below.

5.14 Interest rates/Financing Costs

The debt profile for the authority includes a forecast for interest rates which are calculated by accounting for all estimated interest on the loan types the authority holds in any one year and dividing that into the total debt to arrive at a consolidated average interest rate each year. These rates will change depending on the debt profile and are updated regularly throughout the year. The interest rate charged to the HRA includes the borrowing requirement within the current Business Plan and is currently forecasted to be as follows

2023/24	4.17%
2024/25	4.20%
2025/26	4.18%
2026/27	4.12%
2027/28	4.05%

5.15 Rent Increase

The WG rent policy is determined every 5 years. We are currently under the 2020/2021 to 2024/2025 five-year rent policy which was set at CPI plus 1% (plus a further £2 to align rents if applicable). The Welsh Ministers can determine the appropriate change to the rent levels in any given year if CPI falls outside of the range 0% and 3%. Due to the unprecedented CPI rate in September 2022 of 10.1%, the Minister took the decision to override the policy and restrict the rent increase for social landlords to 6.5%.

5.16 Members agreed to increase the 2023/24 rent by 6.5%. This has been factored into the 2023/24 estimates and year 1 of the Business Plan. For the following years, the CPI rates have been forecasted to be within the 0% and 3% protection threshold, on the basis explained in 5.12 above, therefore the assumption is that these years will attract the CPI plus 1%. Note for this purpose CPI is assumed to be the same as RPI although typically CPI tends to be slightly lower.

It is also worth noting that 2023/24 is the end of the current 5 year rent policy, so there could be a review from the Welsh Minister as to whether the policy is fit for purpose, meaning the current policy may not exist going forward.

2023/24	6.5% as agreed by members
2024/25	3% plus 1% = 4%
2025/26	2% plus 1% = 3%
2026/27	2% plus 1% = 3%
2027/28	2% plus 1% = 3%

5.17 If predicted correctly, this will be the maximum rent increase allowed under the rent policy and LHA's must also evidence affordability. Members recently agreed that the authority could review its rent policy to consider including an appropriate affordability model called the Joseph Rowntree Foundation (JRF) model. When setting the 2023/24 rent the JRF model evidenced that Caerphilly Homes rents are a favourable comparison. Other indications such as the All-Wales statistics also confirm Caerphilly Homes rents are one of the lowest of the LHA's at about 7% lower than the average, yet earnings within the area are some 5% higher than the All-Wales average. According to Data Stat Wales Caerphilly Homes is ranked the lowest local

Authority in Wales in terms of its weekly rent. As part of the sensitivity testing required by WG for the MRA submission, we will include scenarios for lower rents than above to test the viability of the HRA is maintained with additional borrowing. (See 5.31 & 5.32 below on sensitivity testing).

5.18 For future years (from 2027/28 onwards) within the plan, rent increases have assumed to be 3% but these will be reviewed as we progress through the next 5 years when inflation is confirmed, if a new rent policy is introduced, and also how the JRF affordability model impacts on our rent structure. WG have yet to release the new WHQS 2023 standard which could also impact on future rent setting.

5.19 Level of bad debts and voids

This figure is combined in the Business Plan. In previous years, the average void loss was pretty static at just under 2% and arrears at around 2.5%. In recent years this has increased, particularly at the start of the pandemic when tenants were unable to pay their rent and landlords were unable to relet empty properties. LHA's have also started a rent and arrears working group with WG to compare and share best practise going forward as a consequence of the arrears position due to the pandemic and the impact on tenants. In December 2020 voids had increased to 2.8% and arrears to 4.24%. In December 2021, voids were 2.52% and arrears were 4.29%. The latest position shows voids reducing to 2.16% and arrears increasing to 5.1%. Whilst the void position is starting to settle towards its typical average rate, it is clear that arrears are steadily increasing with the added impact of the Cost of Living. Caerphilly Homes is in the top quartile when compared to the other 10 LHA's. However, members will be aware of the intense tenancy support that has been offered to our tenants since the pandemic, with the focus on helping tenants to sustain their tenancies rather than evict them. This will inevitably result in an increase in arrears, with further increases expected due to the Cost-of-Living crisis. As part of the rent increase announcement for 2023/24 The Minister for Housing and Local Government instructed all social landlords to strengthen their approach to minimising all evictions, and not to evict into homelessness, a process we had already embedded within Caerphilly Homes, but with an obvious impact on arrears levels. The Business Plan model has changed slightly as to how the arrears are shown. Previously the arrears were included within the inputs as a percentage, but now the actual arrears within the balance sheet is deducted from the working balances. The only input required now is the actual provision for bad debt which is charged to the HRA each year. For 2023/24 this is 1.14% increasing in line with arrears to 2.5% in 2024/25 and a reduction to 2% from 2025/26 onwards. This assumption is clearly volatile and is therefore included in the sensitivity testing shown in 5.34.

5.20 Stock Count

The estimated stock count for 1st April 2023 is 10,667.

5.21 The plan would normally make an assumption of any council house sales that would reduce the level of stock, until the Right To Buy (RTB) process ended in Wales in January 2019. Therefore, we do not anticipate any further RTB sales in the plan. However, we are now underway with our ambitious new build programme and have also acquired stock via a buy back process which assists us in meeting the increasing housing supply agenda from WG.

5.22 The increase in stock is detailed in 5.24 below and has been assumed based on the most recent Programme Delivery Plan (PDP) for affordable housing which drives the Social Housing Grant (SHG) programme, together with other schemes identified as part of the LDP process where areas have been identified for suitable development upon further investigation and viability checks. £10.3m of SHG funding has been accounted for in the plan for the period April 2023 to March 2025.

5.23 Pay Awards

The assumptions factored into the 2023/24 Draft Budget Proposals report (Special Cabinet 118/1/23) for the Council have been considered against the HRA Business Plan. The forecasted increases in terms of Pay Award and Employers Pension Contributions from

2023/24 to 2025/26 have been applied.

5.24 New Build proposals and grants

The current proposals allow for 432 units (social rented and blended tenure schemes) over the period 2023/24 to 2026/27 at a cost of some £117m. The full new build programme consists of 465 potential units but 33 will have been delivered by the end of 2022/23 so only the remaining 432 is factored into the Business Plan. A further 32 properties have also been acquired through Buy Backs, therefore housing supply for Caerphilly Homes has increased by 65 since 2019/20. Funding assumptions for the New Build programme include the Social Housing Grant awarded by WG up to 2024/25, and the Transitional Accommodation Capital Programme (TACP) Grant, together with expected market sales for the units that will not be classed as affordable housing when completed. Further funding options need to be explored and include the Land and Buildings Development Fund, The Health and Care Fund, and the Cardiff City Region Deal. It is worth noting that the 2021/22 Business Plan allowed for 230 units, and the 2022/23 Business Plan allowed for 405 units, so there is momentum in terms of increasing housing supply.

5.25 The value of the HRA in 2023/24 with the rent increase of 6.5% is £55.5m. The cost of managing and maintaining the service is essentially funded from this, and these costs are entered into the plan which includes a £15.7m commitment towards the capital programme. The capital programme is £35.6m and this includes £16.5m to maintain the WHQS programme (PAMS programme), £10.9m for increasing housing supply and £8.2m for adaptations, large scale void work, and one-off committed projects. It is however worth noting that the current proposals can change quickly as more schemes are identified and some existing proposals may not come to fruition. Also, as experienced this financial year, issues with resources have impacted on the ability to progress with the PAMS programme. Variances to the Housing Revenue and Capital Account are regularly monitored and reported to the Housing & Regeneration Scrutiny Committee throughout the year.

5.26 The assumptions shown above are run through the plan over the 30 years and this typically results in a shortfall that would require some level of external borrowing. The base plan has a shortfall of £52.5m and this requires a borrowing commitment of some £55.7m (£31.5m in 2024/25 and £24.2m in 2025/26). The total borrowing commitment, when factoring in the amount already borrowed for the WHQS programme (£40.9m) is not within the current borrowing cap approved by Council. Total borrowing would currently stand at some £96.6m which would be £6.6m over the £90m agreed level. However, it is important to note that the initial level agreed was always expected to change as we progressed with the new build programme. The total number of proposed units have also increased compared to the previous plan, which will increase costs resulting in further borrowing. The Cost of Living and its impact on inflation also needs to be considered which has not only affected the new build programme, but also the ability to maintain current services. It is also worth noting that there may be other funding streams available, as schemes are investigated further, which would reduce costs, thus reducing the borrowing requirement. Officers recommend the borrowing level be increased to £100m at this stage to ensure adequate funding is available for the current new build proposals and the assumed cost increases within the 2023/24 Housing Business Plan. Borrowing is not required until year 2 of the plan (2024/25).

5.27 To date the HRA has borrowed £40.9m towards achieving WHQS therefore any further borrowing is now committed principally towards increasing our housing supply. The maintenance of the WHQS programme is now under our Post Asset Management Strategy (PAMS) programme and is currently funded from our existing HRA resources and MRA grant from WG, although we await the new version of the WHQS 2 which will undoubtedly affect this profile.

5.28 The Housing Business Plan for 2023/24 confirms that the HRA remains viable with the £55.7m borrowing, as it demonstrates a surplus in the operating account (see appendix A) and the capital account is fully financed (see appendix B)

5.29 Sensitivity Analysis

5.30 A number of sensitivities have also been tested against the base plan which include the following (*all must demonstrate HRA remains in surplus. WHQS still maintained and borrowing affordable)

5.31 ***S1 - A decrease in rent levels to CPI only (3%) in 2024/25***

DESCRIPTION: if CPI falls below 0% or higher than 3% then the policy would revert to CPI only (As in 2022/23). Although forecasts suggest CPI will be within this threshold, the market is very volatile so a variation in rent levels needs to be tested. Year 2 of the Housing Business Plan assumes 4% (CPI + 1%). The sensitivity reduces this to 3% (CPI only)

IMPACT: An increase in the shortfall of some £1.4m compared to the base plan with a further borrowing requirement of £2m.

MITIGATION: Cannot reduce the New Build Programme as there are continuations of the previous year's schemes, although some newer schemes could be reviewed or reprofiled.. The PAMS programme could be reduced but this would mean the timescales for properties maintaining their lifecycles would not be met. Additional borrowing of £2m over years 2 & 3 would fund the shortfall. The increased borrowing would remain within the current recommended borrowing level of £100m. WHQS and the New Build programme would remain on track if all other assumptions remained. The HRA would remain viable but with a reduction of £4.1m capacity by year 10 meaning less funding capacity for future challenges e.g., WHQS 2023, Decarbonisation and further increasing housing supply.

5.32 ***S2 - A decrease in rent levels to 2% in 2024/25***

DESCRIPTION: if CPI falls to 1% then applying the policy means a maximum of 2% rent increase in year

IMPACT: An increase in the shortfall of some £2.1m compared to the base plan with a further borrowing requirement of £9.6m.

MITIGATION: Cannot reduce the New Build Programme as there are continuations of the previous year's schemes, although some newer schemes could be reviewed or reprofiled which could impact on the Councils delivery agenda. The PAMS programme could be reduced but this would mean the timescales for properties maintaining their lifecycles would not be met. Additional borrowing of £9.6m over years 2 & 3 and also years 8-15 would fund the shortfall. The knock of effect of the loss of rental income year on year will also be felt later in the plan. The increased borrowing would go over the current recommended borrowing level of £100m by £6.2m. A further report to Council would be needed to increase the limit with no further productivity. WHQS and the New Build programme would remain on track if all other assumptions remained. The HRA would remain viable but the cost of funding the shortfall would be significant due to its impact later on in the plan meaning less funding capacity for future challenges e.g. WHQS 2, Decarbonisation and further increasing housing supply.

5.33 **S3** - ***An increase of material costs to 10% in year 1***

DESCRIPTION: The volatility of the construction sector due to the pandemic, Brexit and the Cost of Living has seen unprecedented increases in material costs. The base plan allows for a further 5% increase in year 1 as explained but due to the volatility a further sensitivity is tested with a 10% increase.

IMPACT: An increase in the shortfall of some £2.4m compared to the base plan with a further

borrowing requirement of £2.6m

MITIGATION: Cannot reduce the New Build Programme in Year 1 as there are continuations of the previous year's schemes although some newer schemes could be reviewed or reprofiled. The PAMS programme could be reduced but this would mean the timescales for properties maintaining their lifecycles would not be met. Additional borrowing of £2.6m over years 2 & 3 would fund the shortfall. The increased borrowing would remain just within the current recommended borrowing level of £100m. WHQS and the New Build programme would remain on track if all other assumptions remained. The HRA would remain viable but with less funding capacity for future challenges e.g. WHQS 2, Decarbonisation and further increasing housing supply.

5.34 ***S4 - An increase in bad debts to 8% in years 1 & 2***

DESCRIPTION: The base plan includes 5.4% of arrears within the balance sheet for both rent and service charges. The level of bad debt provision has increased due to the pandemic and an allowance has been made in the base plan for a further increase due to expected increases in energy and food prices. However, Caerphilly Homes were in a fortunate position over the last two years when the corporate method of calculating bad debt provision was reviewed, which resulted in a lower bad debt provision being required going forward. Irrespective of this, it is worth testing this scenario by adding the impact of an increase in arrears to 8% over a two-year period. This would mean a loss of income of approximately £1.5m for year 1 and also year 2, and result in a higher bad debt provision.

IMPACT: An increase in the shortfall of some £4m compared to the plan with a further borrowing requirement of £4.2m

MITIGATION: Cannot reduce the New Build Programme in Year 1 as it is a continuation of the previous year's schemes although some newer schemes could be reviewed or reprofiled. The PAMS programme could be reduced but this would mean the timescales for properties maintaining their lifecycles would not be met. Additional borrowing of £4.2m overs year 1 & 2 would fund the shortfall but that is on the assumption that the arrears level would steadily reduce over time. The increased borrowing would be just within the current recommended borrowing level of £100m. WHQS and the New Build programme would remain on track if all other assumptions remained. The HRA would remain viable but with less funding capacity for future challenges e.g., WHQS 2, Decarbonisation and further increasing housing supply. Also, more resource is likely to be needed to support tenants with increased debt.

5.35 ***S5 – Combination of S1 & S3 – Reduce rent to CPI only in 2024/25 and increase material costs to 10% in year 1***

DESCRIPTION: Sensitivity testing needs to include a combination of potential issues as in reality more than one can arise at the same time. Therefore, this tests the possibility of rent reducing to 3% in year 2 and materials increasing to 10% in year 1.

IMPACT: An increase in the shortfall of some £3.5m compared to the base plan with a further borrowing requirement of £5.9m

MITIGATION: Cannot reduce the New Build Programme in Year 1 as there are continuations of the previous year's schemes although some newer schemes could be reviewed or reprofiled. The PAMS programme could be reduced but this would mean the timescales for properties maintaining their lifecycles would not be met. Additional borrowing is needed in year 2, 3 & 9,10,11 due to the knock on effect of the rent reduction in future years. The increased borrowing would not be within the current recommended borrowing level of £100m. A further report to Council would be needed to increase the limit with no further productivity. WHQS and the New Build programme would remain on track if all other assumptions remained. The HRA would remain viable but with less funding capacity for future challenges e.g. WHQS 2, Decarbonisation and further increasing housing supply.

5.36 All the sensitivities tested prove how changes in one area of the Business Plan can affect the whole outcome, and that the Business Plan is reliant on a number of key assumptions that could change quickly and impact on our service delivery. However, the base plan is set using current knowledge within the service and at this point evidence it is viable.

6. ASSUMPTIONS

6.1 Assumptions are prevalent within the Housing Business Plan and are necessary to create a 30-year projection as requested by Welsh Government. Assumptions are included on key drivers such as (i) Interest rates (ii) Inflation (iii) Rental Increases (iv) Staffing levels (v) stock movement (vi) capital programme expenditure (vi) level of rent arrears/bad debts, and (vii) level of voids and are taken from projections, local knowledge and Welsh Government guidance. The key assumptions are detailed in this report, and the assumptions drive the borrowing requirements.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 An Integrated Impact Assessment was carried out as part of the HRA rent charges 2023/24 report which fundamentally drives the Housing Business Plan, therefore a further IIA is not necessary.

8. FINANCIAL IMPLICATIONS

8.1 This report deals with the financial implications.

9. PERSONNEL IMPLICATIONS

9.1 The proposals contained in this report will not alter the current arrangements of HRA personnel.

10. CONSULTATIONS

10.1 All consultation responses have been reflected in this report.

11. STATUTORY POWER

11.1 Local Government Act 1972.

Author: Lesley Allen, Principal Group Accountant, Housing
allenl@caerphilly.gov.uk Tel: 01443 864470

Consultees:	Cllr Patricia Cook	- Vice Chair Housing and Regeneration Scrutiny Committee
	Cllr Shayne Cook	- Cabinet Member for Housing
	Dave Street	- Corporate Director Social Services and Housing
	Nick Taylor-Williams	- Head of Housing
	Stephen R Harris	- Head of Corporate Finance and S151 Officer
	Fiona Wilkins	- Housing Services Manager
	Jane Roberts-Waite	- Strategy and Co-ordination Manager
	Alan Edmunds	- WHQS Project Manager
	Jason Fellows	- HRO Manager
	Kerry Denman	- Housing Solutions Manager
	Rhian Williams	- Capital and Treasury Accountant

Appendices: Appendix A – HRA Business Plan (Capital)
Appendix B – HRA Business Plan (Revenue)