HOUSING AND ENVIRONMENT SCRUTINY COMMITTEE – 26TH MARCH 2024

SUBJECT: HOUSING REVENUE ACCOUNT BUSINESS PLAN 2024/25

REPORT BY: DEPUTY CHIEF EXECUTIVE

1. PURPOSE OF REPORT

For members to consider and take a view on the Housing Revenue Account (HRA) Business Plan 2024/25 which will be presented to Cabinet on the 3rd April 2024. he 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 Council's 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. The Business Plan narrative will be available on the Councils Website once submitted to Welsh Government.

2.3 Now that all the Local Housing Authorities (LHA's) have met the WHQS, there is a requirement to continually invest in assets and communities so that LHA's can maintain their properties to the standard whilst incorporating new challenges. There was an independent summative evaluation of WHQS in June 2021 and following a period of consultation during the Summer 2022, WG launched the new standard "WHQS 2023" in October 2023. The new standard incorporates the WG decarbonisation agenda and intends to effectively and efficiently upgrade social housing, in ways to reduce carbon emissions, and energy bills for tenants. It demands a "Fabric first" approach, setting a minimum thermal performance standard, plus an assessment of overheating risk – which as the planet warms, and more extreme weather events continue to occur, will be essential. The standard also intends to banish fossil fuelled heating and hot water. 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 2024/25 Business Plan, however, WG acknowledge that LHAs 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 has been adopted, 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 Business Plan.

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, and a further increase to £100m was approved in May 2023 due in part to higher than anticipated inflation that affected the whole service, including the new build programme. Of this £100m, £40.9m has been taken up for the WHQS programme leaving £59.1m available initially towards increasing housing supply. Further development programmes are likely to require additional borrowing, together with any further potential impacts of unprecedented inflation increases.

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 2024/25 report that was presented to Housing and Regeneration Scrutiny Committee on the 2nd November 2023 and Cabinet on the 13th December where 6.7% rent increase was agreed for 2024/25. This report analysed some costing scenarios against the 2023/24 Housing Business Plan that had materialised since the plan was submitted to WG in March 2023. This included an assumed rent of 4%, the higher than anticipated pay award and the continuing impact on the increases for construction and material costs, which had been forecasted to reduce earlier. This evidenced, that with a lower than inflation rent increase of 4%, the business plan was not sustainable, therefore the rent increase was agreed at 6.7%, being the maximum allowed within the Welsh Governments Rent Policy.

3. RECOMMENDATIONS

3.1 That members of this committee acknowledge and consider the 2024/25 Housing Business Plan prior to its approval by Cabinet on the 3rd April, and its submission to Welsh Government by the 31st March 2024.

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 Welsh Government 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.

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 2024 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 2024/25 has made the following assumptions. Note that this shows the first 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.

Inflation Rates

5.12 Every year, as part of the Business Planning Guidance, WG have advised LHA's to use 2% as a typical inflation rate based on the Retail Price Index (RPI). In the past few years 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. This time last year The Bank of England forecast that from mid-2023 inflation will fall sharply, perhaps below their 2% target, and expect to level close to the 2% target by 2025/26. The Bank of England has also steadily increased interest rates to attempt to bring inflation down. However, Inflation did fall but not to the level anticipated, and RPI rates mid 2023 (June) were still at 10.7%. They have continued to fall but are still above the 2% target. The latest RPI rate as at January 2024 is 4.9%.

5.13 The inflation rates for the Business Plan tend to be in line with inflation rates used for the Council's Draft Budget Proposals for 2024/25. However, for the reasons mentioned above, general inflation has been factored higher into the Business Plan due to the volatility of past predictions. Inflation does return to the 2% target in year 5.

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

2025/26	4%
2026/27	3%
2027/28	3%
2028/29	3%
2029/30	2%

5.15 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 shows that building material prices are falling in key products with a 2.3% reduction from November 2022 to November 2023, but output, especially new homes, saw shortfalls mainly due to increased interest rates and declining product availability. Bricks and blocks continue to see shortages and expect to continue into 2024. The Office of National Statistics (ONS) reported 25% of construction businesses in the UK are experiencing skilled labour shortages, and the Federation of Master Builders, reported difficulties in hiring skilled bricklayers and carpenters, which is a factor in rising costs of construction and wage increases. However, due to the fact that RPI within this plan is above current predictions to allow for this type of volatility, a further increase of 1% has been applied just for this element within the Plan. Further testing for higher increases is factored into the sensitivity analysis on 5.40 below.

Interest Rates/Financing Costs

5.16 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. Where internal borrowing has taken place, the rate is adjusted accordingly. Interest rates will change depending on the debt profile and are updated regularly throughout the year. The interest rates within the Business Plan are currently forecasted to be as below, although officers are currently exploring different HRA investment models which may mean a move from the current approach.

2024/25	4.51%
2025/26	4.29%
2026/27	4.02%
2027/28	3.99%
2028/29	3.90%

Rent Increase

5.17 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%.in 2023/24 and subsequently 6.7% in 2024/25.

5.18 Members agreed to increase the 2024/25 rent by 6.7%. This has been factored into the 2024/25 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, therefore the assumption is that these years will attract the CPI plus 1%. CPI has typically been about 1% lower than RPI, but when the 2% is reached the plan assumes both RPI and CPI are the same, as the government intends to replace RPI with CPIH (which is the Consumer Price Index plus owner-occupiers housing costs) in 2030. CPI and CPIH rates have been very similar in recent months.

5.19 It is also worth noting that 2024/25 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 and rent levels could change. The plan includes the following rent increases:

2024/25	6.7% as agreed by members
2025/26	3% plus 1% = 4%
2026/27	2% plus 1% = 3%
2027/28	2% plus 1% = 3%
2028/29	2% plus 1% = 3%
2029/30	2% plus 1% = 3%

5.20 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 2024/25 rent the JRF model evidenced that Caerphilly Homes rents are a favourable comparison with the exception of 1 bed flats which are 37p per week above the threshold. Other indications such as the All-Wales statistics also confirm Caerphilly Homes rents are one of the lowest of the LHAs at about 5.2% lower than the Wales average, yet earnings within the area (based on 2022 data) are some 5% higher than the All-Wales average. According to Data Stat Wales, Caerphilly Homes is ranked the 3rd 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 5.38 and 5.39 below on sensitivity testing).

5.21 For future years (from 2026/27 onwards) within the plan, rent increases have assumed to be 3% but these will be reviewed as inflation hopefully stabilises. We will also need to consider the impact of a new rent policy, and also how the JRF affordability model impacts on our rent structure. WG have yet to confirm funding towards the new WHQS 2023 standard which could also impact on future rent setting.

Level of bad debts and voids

5.22 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. The latest position shows voids at around 3.2% and current arrears increasing at around 6.8%. Whilst the void position is expected to reduce slightly (as this includes sheltered scheme work that are coming to the end of their remodelling programme where tenants had to be decanted), it is clear that arrears are steadily increasing with the added impact of the Cost of Living. Voids are factored into the plan at 3%. In terms of arrears, Caerphilly Homes is in the top quartile when compared to the other 10 LHAs. 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 pending managed migration roll out from the Department of Work and Pensions (DWP) of Universal Credit to a wider working age claimant base. This will see claimants currently on Child Tax Credits, Working Tax Credits, Housing Benefits, and Income Support move to Universal Credit by the end of 2025. These claimants currently have their benefits paid directly to their rent account. Under Universal Credit their entitlement will be paid direct to them. As part of the rent increase announcement, 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.

5.23 The actual input needed for the plan to address the arrears is the provision for bad debt which is charged to the HRA each year. Currently there is about 4% cover within the HRA balance sheet for bad debt provision. The Quarter 3 position shows the bad debt provision is likely to increase by about 0.5% by year end with a projection of a 0.8% increase in 2025/26. The provision has been forecasted to increase further from 2025/26 onwards to 1%, in line with the DWP managed migration. This assumption is clearly volatile and is therefore included in the sensitivity testing shown in 5.41.

Stock Count

5.24 The estimated stock count for 1st April 2024 is 10,647.

5.25 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.

5.26 The increase in stock is detailed in 5.29 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.

5.27 The level of SHG funding included in the plan is derived from appraisal assumptions that each scheme within the PDP will attract a certain level of grant.

Pay Awards

5.28 The assumptions factored into the Councils 2024/25 Draft Budget Proposals report (Council 27/2/24) have been considered against the HRA Business Plan. The forecasted increases in terms of Pay Award and Employers Pension Contributions from 2024/25 to 2026/27 have been applied.

New Build Proposals and Grants

5.29 The current proposals allow for 528 units (social rented and blended tenure schemes) over the period 2024/25 to 2028/29 at a cost of some £163m. To date 31 properties have been successfully built and brought into Caerphilly Homes stock portfolio. A further 46 properties have also been acquired through our acquisition (buy back) programme, therefore housing supply for Caerphilly Homes has increased by 77 since 2019/20. Furthermore, Caerphilly Homes has recently introduced 2 of its first Low Cost Home Ownership (LCHO) properties which are currently being marketed. Funding assumptions for the New Build/Increasing Housing Supply programme include the Social Housing Grant (SHG) awarded by WG, and the Transitional Accommodation Capital Programme (TACP) Grant, together with expected private market sales for the units that will not be classed as affordable housing when completed. It is worth noting that the 2021/22 Business Plan allowed for 230 units, increasing to 405 in the 2022/23 Business Plan, and to 432 in the 2023/24 Business Plan, so there is clearly momentum in terms of increasing housing supply.

5.30 The value of the HRA in 2024/25 with the rent increase of 6.7% is some £60m. The cost of managing and maintaining the service is essentially funded from this, and these costs are entered into the plan which includes a £19.6m commitment towards the capital programme. The capital programme is £62.8m and this includes £21.4m to maintain the WHQS programme, £19.9m for increasing housing supply and £21.5m for adaptations, large scale void work, and one-off committed projects. Borrowing is not expected to be required in 2024/25 as funding will be taken from HRA reserves which currently stands at £22.5m. There is also a level of funding assumed from the Major Repairs Allowance (MRA), together with grants from WG, and in year revenue contributions. It is however worth noting that the current new build 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 WHQS maintenance programme. Variances to the Housing Revenue and Capital Account are regularly monitored and reported to the Housing and Regeneration Scrutiny Committee throughout the year.

5.31 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 £50.1m over the next 2 years and this requires a borrowing commitment of some £51.3m in 2025/26. The total borrowing commitment up to 2025/26, when factoring in the amount already borrowed for the WHQS programme (£40.9m) is within the current borrowing cap approved by Council. Total borrowing would currently stand at some £92.2m which would be £7.8m under the £100m 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 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. Further challenges such as new legislation demands including a potential new rent policy will also impact the plan. It is also worth noting that there may be other funding streams available, as schemes are investigated further, as well as reviewing investment models, which could reduce costs, thus reducing the borrowing requirement. Officers recommend the borrowing level be maintained at £100m at this stage and review to coincide with the introduction of the WHQS 2023 requirements which includes the completion of stock condition surveys (March 2025) and Targeted Energy Pathways (March 2027). Officers are also awaiting consultation on the new rent policy due to be implemented for 2025/26.

5.32 To date the HRA has borrowed £40.9m towards achieving WHQS and further borrowing was committed principally towards increasing our housing supply, however we also need to factor in the increased costs to our existing stock as a result of major changes to government legislation with the Renting Homes Wales Act and gearing up to the new WHQS 2023 standard, as well as the introduction of the Optimised Retrofit Programme, increase works to void properties, and the extension of the successful acquisition programme. The maintenance of the WHQS programme is currently funded from our existing HRA resources and MRA grant from WG, but it is clear from this plan that to sustain this level of investment to our existing stock will require a significant amount of borrowing year on year. The plan therefore shows that a significant level of borrowing is required over the 30 years to sustain its current levels. This plan, however, is a transitional plan that in reality only shows assurances over the next 2 years. Until we get clarity on the WHQS 2023 position (including confirmation of funding) and what the new rent policy will look like, anything beyond 2 years in this plan is circumstantial and is expected to change.

5.33 The introduction of the new WHQS 2023 and in particular part three on decarbonisation and affordable warmth, is a factor but not known to its full extent and therefore has not been reflected in this year's business plan. Welsh Government are not expecting comprehensive costed models for decarbonisation in this year's plan. An increase in resources for structural changes required to meet the future challenges and changes to the business have also been factored in to support the delivery of the outputs of the business plan.

5.34 It has been acknowledged that as we progress further with new build aspirations and in time once our targeted energy pathways and stock condition analysis is completed, that the borrowing capacity would need to be reviewed but not for the next two years.

5.35 The Housing Business Plan for 2024/25 confirms that the HRA remains viable with the current borrowing requirement over the next two years, as it demonstrates a surplus in the operating account (see appendix A) and the capital account is fully financed (see appendix B) Current projections are that the borrowing requirement can remain around £100m up to and including 2025/26. The cap is therefore not required to be increased for 2024/25 as the HRA will be utilising the majority of its revenue balances. Cost inflation and rent changes will dictate if the cap needs to be increased for 2025/26, or reprofiled to 2026/27.

5.36 It is worth noting at this stage, that when decarbonisation costs for part three of WHQS23 are included and in the absence of any certain funding from Welsh Government, the costs are not sustainable going forward and without efficiency measures or additional funding, the HRA will become unviable. This will impact on the borrowing requirements going forward.

<u>Sensitivity Analysis</u>

5.37 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)

5.38 ***S1 - A decrease in rent levels to CPI only (3%) in 2025/26***

<u>DESCRIPTION</u>: if CPI falls below 0% or higher than 3% then the policy would revert to CPI

only. Although forecasts suggest CPI will be within this threshold, the market is still quite 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 £0.751m up to year 5 compared to the base plan with a further borrowing requirement of £0.900m.

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 WHQS maintenance programme could be reduced but this would mean the timescales for properties maintaining their lifecycles would not be met. Additional borrowing would fund the shortfall and the plan remains viable over the 5 years. The borrowing cap is not breached over the next 2 years.

5.39 ***S2 - A decrease in rent levels to 2% in 2025/26***

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 £2m up to year 5 compared to the base plan with a further borrowing requirement of £2.3m.

MITIGATION: As 5.38

5.40 **S3** - ***An increase of material costs to 5% 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 allowed some flexibility as explained earlier in the report, but due to the volatility a further sensitivity is tested with a 5% increase. This is added to the Response budget and also the Capital programmes.

IMPACT: An increase in the shortfall of some £3.6m up to year 5 compared to the base plan with a further borrowing requirement of £4.6m

MITIGATION: As 5.38

5.41 ***S4 - An increase in bad debt provision by 2% in years 2 and 3***

DESCRIPTION: The base plan includes an increase in years 2 and 3 to allow for the DWP migration at the end of 2025. Rent arrears are higher for those on Universal Credit than those who have yet to transfer, so the plan should be tested for a further increase of 2% in 2025/6 and 2026/7.

IMPACT: An increase in the shortfall of some £2.6m up to year 5, compared to the plan with a further borrowing requirement of £3.1m

MITIGATION: As 5.38

5.42 ***S5 – Combination of S1 and S3 – Reduce rent to CPI only in 2025/26 and increase material costs to 5% 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 5% in year 1.

IMPACT: An increase in the shortfall of some £4.4m up to year 5, compared to the base plan with a further borrowing requirement of £5.4m

MITIGATION: As 5.38

5.43 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 although large borrowing requirements are necessary year on year. The Business plan will remain within the current borrowing cap for the next 2 years.

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 2024/25 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 Any personnel implications arising from the HRA programmes have been accounted for within the Business Plan.

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, Finance Manager (Housing)
allenl@caerphilly.gov.uk Tel: 01443 864470

Consultees:

Cllr Shayne Cook	- Cabinet Member for Housing
Cllr A Whitcombe	- Chair Housing and Environment Scrutiny Committee
Cllr Shane Williams	- Vice Chair Housing and Environment Scrutiny Committee

Dave Street	- Deputy Chief Executive
Nick Taylor-Williams	- Head of Housing
Stephen R Harris	- Head of Financial Services and S151 Officer
Leanne Sykes	- Deputy Head of Financial Srevices and S151 Officer
Fiona Wilkins	- Housing Services Manager
Jane Roberts-Waite	- Strategy and Co-ordination Manager
Catherine Edwards	- Head of Asset Maintenance and Repairs
Jason Fellows	- HRO Manager
Michael Williams	- Planned Asset Maintenance Manager
Kerry Denman	- Housing Solutions Manager
Rhiann Williams	- Capital and Treasury Accountant

Appendices

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