
HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2024-25

Appendix 4 to this report is exempt from publication as it contains information of the kind described in paragraphs 14 and 21 of parts 4 and 5 of Schedule 12A to the Local Government Act

Purpose of the Cover Report

1. To provide background information to enable Members to carry out pre-decision scrutiny of the Housing Revenue Account (HRA) Business Plan 2024-25.
2. A copy of the draft Cabinet Report is attached at **Appendix A**, which in turn contains:
 - Appendix 1;** the HRA Business Plan 2024-25. The Business Plan also contains the following appendices:
 - *Appendix A HRA Revenue and Capital Budgets*
 - *Appendix B HRA Revenue Assumptions*
 - *Appendix C Risk Matrix*
 - *Appendix D Sensitivity Analysis*
 - *Appendix E HRA Business Plan 30-year Budget Forecast*
 - Appendix 2;** Single Impact Assessment
 - Appendix 3;** Child Rights Impact Assessment
 - Appendix 4;** HRA 5 Year Capital Programme – *confidential*
 - Appendix 5;** Estimated Delivery Timescales for the New Build Programme.
3. Present at the meeting will be Cllr Lynda Thorne, Cabinet Member for Housing & Communities alongside senior officers of the Housing & Communities directorate and accountancy department. A presentation, providing a summary of the HRA will be delivered at the meeting for Committee Members. Committee Members are reminded, should they wish to raise, or explore any detail contained in **Appendix 4**; this must be done in closed session when webcasting has ceased.

Scope of Scrutiny

4. Within their considerations of the Council's management of the Housing Revenue Account, Committee Members should consider:

- The Council's purpose and vision as a social housing landlord.
- The Council's landlord objectives and standards for the service.
- If the Council adequately plans how to achieve the objectives and standards set out.
- If the Council sufficiently plans resource and financial requirements.
- The framework for monitoring and evaluating the progress of 'business' alongside risk management and mitigation.
- If we communicate the Council's landlord plans to tenants, Council Members, the Welsh Government, partners and the wider community through clear, digestible means.

Background – Housing Revenue Account

5. All Local Authorities in Wales have the responsibility to plan for the housing needs of their population in their role as Strategic Housing Authority. However only 11 of the 22 authorities in Wales have retained their council housing stock and consequently a role in the direct delivery of affordable, good quality homes as a social housing landlord.

6. The Local Government and Housing Act 1989 places a statutory duty on local authorities (*who have housing stock*) to maintain a separate, and ring-fenced¹ Housing Revenue Account (HRA) for the costs associated with the management and maintenance of Council dwellings.

7. Every year, each of the 11 stock retaining authorities are required to present an "acceptable" Housing Revenue Account (HRA) Business Plan (including a 30-year financial model) to the Welsh Government. This is to allow the Welsh Government to assess the progress of local authorities in meeting and/or maintaining the Welsh

¹ The term ring-fenced in this context means, the Council must not subsidise costs relating to Council Housing from the Council's General Fund, and vice versa.

Housing Quality Standard (WHQS) to then be eligible for the Major Repairs Allowance (MRA) Grant (which is currently £9.570m).

8. In their February 2024 meeting, Committee Members explored the Cabinet Member and service areas views on meeting the updated, WHQS 2023; questioning why no specific financial allocation in meeting these new standards could be seen in the HRA 2024 budget.
9. Within the discussion, Committee Members were informed, at present, there is uncertainty around the overall costings in meeting the new standards and of the service area's commitment toward attaining a comprehensive understanding on how meeting the new standards will be achieved.
10. Committee Members were also informed, owing to the estimated financial requirements, it is perceived meeting the updated WHQS 2023 standards would be significantly challenging without additional grant funding being received from Welsh Government. Further information on the service area's plans to meet the new WHQS can be found in Section 2 of the Business Plan (**Appendix 1**) with **Points 15 – 19 of the Cabinet Report (Appendix A)** providing a summary.
11. As mentioned earlier in this Cover Report, the Council's HRA is ring-fenced, with its main income stream arising from council tenants' rents. In December 2023, it was agreed by Cabinet to increase council rents by the maximum 6.7%² and to also increase service charges by 6.7%, or by actual costs where known.
12. Committee Members are to note, the 2023 December Cabinet Report advised a proposed rent / service charge increase of 6.7% is affordable against the Joseph Rowntree Foundation affordability model. A summary of the decision taken by Cabinet in December 2023, and its rationale is captured in **points 29 - 35** of this Cover Report.

² For background purposes, Committee Members are advised, in December 2022, Cabinet agreed to increase the council house rents by the maximum allowed lift of 6.5% The uplift of service charges in 2022 was also by 6.7% or by 'actual cost where these are known'.

Overview - Housing Revenue Account Business Plan

13. As detailed in **point 4** of the Cabinet Report (**Appendix A**), the purpose of the HRA Business Plan (**Appendix 1**) is to present transparent, efficient and precise planning of the council's housing assets and management strategy.

14. The HRA Business Plan identifies a number of priorities as aligned to the council's 'Stronger, Fairer, Greener' vision and the overall Welsh Government strategic vision.

15. The Business Plan (**Appendix 1**) is organised in line with those identified priorities, and the Cabinet Report, attached at **Appendix A**, provides an overview of each identified priority between **points 8 to 50**.

In short, the priorities identified in the Business Plan are:

- Building new council homes
- Delivering the Welsh Housing Quality Standard (WHQS) 2023
- Maintaining our homes
- Moving towards zero carbon homes
- Improving our neighbourhoods
- Providing safe and inclusive communities
- Supporting tenants through the cost-of-living crisis
- Preventing and addressing homelessness
- Listening to our tenants
- Modernising and improving our services for tenants.
- Financial resources and planning.

16. To aid Members consideration of the HRA Business Plan, the following contents table, signposts Members to those priorities and their relevant page numbers.

Please note that the page numbers listed in the table below, ***refer to the pages of the original document in Appendix 1.***

Section of HRA Business Plan	Pages in Appendix 1
Building New Council Homes	9-18
Delivering the Welsh Housing Quality Standards 2023	19-21
Maintaining our Homes	22-29
Moving Towards Zero Carbon Homes	30-31
Improving our Neighbourhoods	32-36
Providing Safe & Inclusive Communities	37-42
Supporting our Tenants through the Cost-of-Living Crisis	43-46
Preventing and Addressing Homelessness	47-53
Listening to Our Tenants	54-59
Modernising and improving services for our tenants	60-61
Financial Resources and Planning	62-68

Overview - HRA 5 Year Capital Programme

17. The table below (entitled 'Capital Funding'), was provided to Committee Members' in their February 2024 meeting papers, and offers an overview of the council's general Capital Programme funding streams, and the council's HRA Capital Programme funding streams.

In line with the focus of the agenda item, Members are advised to focus on the information relating to the funding streams of the HRA Capital Programme.

Capital Funding 2024/25 - 2028/29

	2024/25 £000	Indicative 2025/26 £000	Indicative 2026/27 £000	Indicative 2027/28 £000	Indicative 2028/29 £000	Total £000	%
General Fund							
WG Unhypothecated Supported Borrowing	(8,973)	(8,973)	(8,973)	(8,973)	(8,973)	(44,865)	5.1
WG General Capital Grant	(9,215)	(6,134)	(6,134)	(6,134)	(6,134)	(33,751)	3.8
Additional General Capital Grant unallocated from 2021/22	(1,450)	(2,520)	0	0	0	(3,970)	0.4
Additional Borrowing to balance existing capital programme	(38,342)	(21,084)	(10,343)	(3,063)	(3,723)	(76,555)	8.6
Additional Borrowing for new schemes approved in 2024/25	(11,560)	(9,700)	(10,000)	(15,000)	(15,920)	(62,180)	7.0
Additional Borrowing - Invest to save/earn schemes to be repaid from revenue savings/incidental income or directorate budgets	(108,979)	(126,557)	(45,657)	(12,865)	(5,500)	(299,558)	33.8
Earmarked Capital Receipts	(3,505)	(325)	0	0	0	(3,830)	0.4
Non Earmarked Capital Receipts assumption	(2,105)	(2,000)	(2,000)	(2,000)	(2,000)	(10,105)	1.1
Earmarked Reserves	(5,035)	0	0	0	0	(5,035)	0.6
External grant and contributions estimates	(132,258)	(103,173)	(55,205)	(30,113)	(26,335)	(347,084)	39.1
Total General Fund	(321,422)	(280,466)	(138,312)	(78,148)	(68,585)	(886,933)	100.0
Public Housing (HRA)							
Major Repairs Allowance WG Grant	(9,570)	(9,570)	(9,570)	(9,570)	(9,570)	(47,850)	6.41
Additional Borrowing	(76,502)	(120,784)	(80,490)	(62,065)	(65,505)	(405,346)	54.32
Revenue / Reserves	(1,400)	0	0	0	0	(1,400)	0.19
External grant and contributions estimates	(48,308)	(66,396)	(74,630)	(49,740)	(51,000)	(290,074)	38.88
Capital Receipts	(500)	(500)	(500)	0	0	(1,500)	0.20
Total Public Housing	(136,280)	(197,250)	(165,190)	(121,375)	(126,075)	(746,170)	100.0
Total Capital Programme Resources Required	(457,702)	(477,716)	(303,502)	(199,523)	(194,660)	(1,633,103)	

18. **Appendix 4** to this Cover Report provides information on the Housing Revenue Account Capital Programme 2024/25 spend, and it's indicative spend for future years. Committee Members are advised the information contained in **Appendix 4** is exempt from publication and so is to be treated confidentially.

Should Committee Members have questions on this Appendix, they will need to be taken in closed session; with the webcast ceased.

Overview - Housing Revenue Account 2024/25 Budget and Medium-Term Financial Plan

19. The [Housing Revenue Account 2024/25 Budget and Medium-Term Financial Plan](#) (MTFP) indicates a budget gap in the HRA of £800,000 **for the financial year 2028/29** and a **further £1 million gap for 2029/30**. As stated in **Appendix A**, the MTFP proposes, if this gap is apparent, the Council would use general reserve to cover this gap and to replenish these reserves over the longer-term period.
20. The MTFP advised this estimated budget gap in the medium term of £800,000, is impacted by increased service demand, inflationary pressures, additional operating costs of new sheltered housing and specialist accommodation schemes. However, the most significant increase is in capital financing costs as a result of the planned new build programme and the estimated timings of new build completions and availability to let which determines the rental streams available each year, which results in a temporary budget shortfall.
21. The MTFP advises, to ensure the sustainability of the HRA, while meeting the additional pressures noted in **point 20 of this Cover Report**, the service area has put in place a range of strategies including:
- Target efficiencies across all service provision.
 - Review income streams and maximise income generation where possible subject to considerations of risk and policy.
 - Maximisation of grant funding sources to improve viability of schemes.

22. The MTFP offers the below table to provide insight on the impact of the increasing borrowing requirement on the HRA net revenue stream³. Further the narrative in the MTFP advises the table indicates:

a) HRA Capital financing costs as a proportion of the net revenue stream - an increasing ratio indicates that a greater proportion of the HRA resources are required to meet capital financing costs over the period.

b) HRA Capital Financing Requirement (Debt) as a ratio of the net revenue stream – this ratio shows the amount of debt proportionate to the net revenue stream and is an indicator of future financial sustainability. It helps to explain the relationship of debt to the HRA resources available to deliver services.

	22/23 Actual	23/24 Est	24/25 Est	25/26 Est	26/27 Est	27/28 Est	28/29 Est	29/30 Est	30/31 Est
HRA Capital Financing costs as a proportion of the Net Revenue Stream (%)	29.29	28.84	30.13	33.45	36.44	38.28	40.08	40.15	40.23
HRA Capital Financing Requirement as a ratio of Net Revenue Stream	3.76	3.98	4.25	4.94	5.16	5.36	5.46	5.51	5.43

The above table and its narrative is taken from page 11 & 12 of the MTFP.

23. The MTFP confirms the Business Plan is viable over the 30-year period however the risk matrix table (**Appendix C of Appendix 1**) identifies a number of significant risks that will need to be reviewed in detail and have appropriate controls put in place to mitigate and manage any changes to assumptions.

General Context - Increase in Borrowing Costs and the Cost of Energy and Materials.

24. In a similar vein to scrutiny of the Council’s proposed budget; this Scrutiny Committee has highlighted sustained concerns regarding the ‘cost of borrowing for the HRA and both its immediate and longer-term implications’.

³ HRA Revenue stream is the rent and service charge income.

25. Although, it is to be noted, typically the Committee does endorse the general reason for the HRA borrowing which, as Committee Members have been previously informed, is to allow for the progression and development of more affordable homes in the city; in a bid to address the sustained housing issues.
26. When considering the HRA Business Plan in 2023, Committee Members sought clarity on how much income the Council anticipates as a return of the Council House Build Programme. Within the discussions, Members were informed substantial modelling work is undertaken of each development scheme via a viability assessment / toolkit and it is forecast in thirty years' time, the Council will be in a position where the borrowing is paid back, with a surplus from the rent coming in.
27. It is still to be noted borrowing costs within the HRA are substantial and warrant ongoing scrutiny assessment. Other costs also impacting on the HRA include the cost increased cost of material and increases in energy costs. However, of late, it is envisaged that although material costs and energy costs may have stabilised, any further fluctuations can impact negatively on the HRA and will need to be monitored closely.
28. The borrowing requirements for the HRA are set out in section 11 of the Business Plan (**Appendix 1**) and a summary of the viability testing on the Council House Build Programme, is presented in **points 13 and 63 of the Cabinet Report (Appendix A)**.

General Context - Council House Rent Setting

29. It is the Council's responsibility to determine rent levels for its tenants. However, it must be done in line with the Welsh Government's, Rent Policy Framework, which sets the following:
- Social landlords must assess cost efficiencies, value for money and affordability for tenants.
 - The maximum overall rent increase allowance is the September Consumer Price Index (CPI) +1%. Should the CPI fall outside the range of 0% to 3%,

the Welsh Government's Housing Minister will determine the appropriate change to rent levels.

In September 2023, CPI was 6.7%. Therefore, a decision regarding the rent setting was required by the Welsh Government Housing Minister. The Minister announced on the 27th October 2023 that the maximum that council rents can increase by is 6.7%.

30. The Renting Homes (Wales) Act 2016 stipulates landlords must provide a two-month notice requirement for tenants when an increase in fees is proposed. As a result, in December 2023, Cabinet approved the proposed approach to the setting of Council House rents, and related service changes on Housing Revenue Account (HRA) for the financial year 2024/25.

31. In December 2023⁴, Cabinet agreed Council rents should increase by the full amount allowed of 6.7%. In making this decision modelling was undertaken against the Joseph Rowntree Foundation Living Rents Model, with the outcome being, a 6.7% increase, still provides council rents as affordable and good value for money.

32. Further it was also noted that 86% of council tenants are in receipt of benefits to assist with their rent. In the majority of cases these tenants will also have an increase in rent covered by an increase in their benefits. In November 2023, it was announced that from April 2024, benefits including Universal Credit will rise by 6.7%, and the state pension will increase by 8.5%.

33. Other rationale to increase the rent by 6.7% was also determined as:

- Owing to the impact on the HRA Business Plan, any lower increase could hinder the Council's ability to continue to:
 - Maintain and improve existing homes.
 - Build new homes.
 - Support Tenants

⁴ [CARDIFF COUNCIL \(moderngov.co.uk\)](https://www.moderngov.co.uk), Cardiff Council House Rent & Service Charge Setting, December 2023. Accessed: Thursday 6th March 2024.

34. In addition, the December 2023 Cabinet Report highlighted due to the impact of inflation and the end of the current rent setting framework in 2025, a degree of uncertainty remains about future rent levels. As a result, this is a significant risk to the resilience of the HRA as it means that the Council cannot control or effectively predict a key component of HRA business planning.

35. The December 2023 Cabinet Report identified that the proposed rent uplift of 6.7% could still result in an estimated HRA deficit of £537,000 that would need to be addressed when setting the HRA Revenue Budget for 2024/25. As a result, in December 2023 a review took place and a number of areas were identified where efficiencies could be made, if this estimated deficit is apparent when setting the HRA budget in Feb / March 2024.

Those identified efficiencies in the December 2023 review were⁵:

- Review of the Senior Management Team
- Alignment of Advice Services
- Review of staffing establishments and related funding requirements
- Income Opportunities with Community Hubs

General Context – Setting the HRA Budget.

36. The Council has a statutory duty to ensure that the HRA achieves a balanced budget over the medium term. Council, on 7th March agreed the Council’s budget, and within it, agreed the following projections for ear marked reserves of the Housing Revenue Account during 2024/25⁶:

EARMARKED RESERVES HOUSING REVENUE ACCOUNT

	Reserve	Estimated balance at 31.03.2024 £000	Estimated Movements		Estimated balance at 31.03.2025 £000	Purpose /To fund:
			To finance budget £000	Other Commitments £000		
1	Housing Development Resilience Reserve	1,000	0	1,600	2,600	Improve resilience within the Housing Development Capital Programme
2	Housing Repairs and Building Maintenance	4,121	0	(1,500)	2,621	Housing repairs and to mitigate against risk within the Construction Industry
3	Welfare Reform	179	0	(179)	0	Project costs and scheme development to address issues for council tenants due to benefit cap and universal credit
	TOTAL	5,300	0	(79)	5,221	

⁵ Committee Members will note, many of these efficiency / service changes were proposed in the Council’s Budget as agreed by Council on 7th March 2024.

⁶ Committee Members are advised to disregard the colour coding in the table as it relates to the organisation of the 2024 Budget Scrutiny Papers – which were colour coded in line with the Cabinet Member’s portfolio.

	Reserve	Estimated balance at 31.03.2024 £000	Estimated Movements		Estimated balance at 31.03.2025 £000	Purpose /To fund:
			To finance budget £000	Other Commitments £000		
1	HRA General Reserve	15,502	0	0	15,502	Impact of unexpected events or emergencies within the HRA

37. For Committee Members information, the tables below provides the ear marked reserve projections for ear marked reserves of the Housing Revenue Account during 2023/24:

EARMARKED RESERVES HOUSING REVENUE ACCOUNT

	Reserve	Estimated balance at 31.03.23 £000	Estimated Movements		Estimated balance at 31.03.24 £000	Purpose /To fund:
			To finance budget £000	Other Commitments £000		
1	Housing Development Resilience Reserve	750	0	250	1,000	Improve resilience within the Housing Development Capital Programme
2	Housing Repairs and Building Maintenance	9,021	0	0	9,021	Housing repairs and to mitigate against risk within the Construction Industry
4	Welfare Reform	429	0	0	429	Project costs and scheme development to address issues for council tenants due to benefit cap and universal credit
TOTAL		10,200	0	250	10,450	

	Reserve	Estimated balance at 31.03.23 £000	Estimated Movements		Estimated balance at 31.03.24 £000	Purpose /To fund:
			To finance budget £000	Other Commitments £000		
1	HRA General Reserve	15,502	0	0	15,502	The impact of unexpected events or emergencies within the HRA

38. Although a balanced budget of the HRA was agreed by Council on 7th March, as detailed in **Appendix 1** and this **Cover Report**, pressures are recognised where budget gaps are projected in future years.

39. Any liabilities of the HRA are ultimately liabilities of the Council, so it is essential that a longer-term planning and modelling horizon continues to be updated as part of the HRA Business Plan. This includes robust viability assessments for new housing development proposals and other risks identified in Business Plan (**Appendix C of Appendix 1**).

Previous Scrutiny

40. Each year, the HRA Business Plan has to be presented to the Welsh Government. In advance of its presentation to the Welsh Government, the proposed Plan is considered by this scrutiny committee ahead of Cabinet consideration. In consideration of previous Business Plans, some of the areas

explored by past Committee Members included⁷⁸⁹:

- a. The benefit and importance of the Plan's matrix table. As a key purpose of this matrix table is to provide Welsh Government and members of the public with a clear understanding of the identified areas of risk, Members felt the narrative should be expanded to include information on how risks are determined, analysed and monitored to ensure performance, progress and viability.
- b. With regard to the format of the Business Plan, Members noted the format is prescribed by Welsh Government, however were advised there is scope to alter its format within reason. As a result, Members **recommended** in future years, more information is included in the Plan regarding financial detail, mitigation measures and sensitivity analysis. Members are to note this recommendation was partially accepted due to the Cabinet's view that as a comprehensive financial model sits below this document, they do not wish the document to lose its accessibility and transparency.
- c. In relation to the WHQS decarbonisation agenda¹⁰, Members raised their concerns over the substantial costings of this work and sought assurance this is being adequately accounted for – Members heard work is ongoing with Welsh Government regarding fiscal support.
- d. Given the challenges surrounding retrofitting (costing, scale of work, ensuring affordable energy costs for tenants) Members questioned if the 'challenge of decarbonisation' risk being determined as amber in the plan was realistic.
- e. Members sought assurance that the debt projections contained in the Plan were viable.
- f. Members requested confirmation on the construction price inflation figures to determine its alignment to the sensitivity analysis within the Plan
- g. Members highlighted the need to provide better information on Council void properties within the Business Plan, including the number of council

⁷ [Letter from Cllr Jenkins, Chairman of CASSC, to Cllr Thorne, Cabinet Member, dated 16 March 2021.](#)

⁸ [Letter from Cllr Jenkins, Chairman of CASSC, to Cllr Thorne, Cabinet Member, dated 10 March 2022](#)

⁹ [\(Public Pack\)Correspondence following Committee Meeting Agenda Supplement for Community & Adult Services Scrutiny Committee, 20/03/2023 14:00 \(moderngov.co.uk\)](#)

¹⁰ Which requires the upgrading of council properties from minimum EPC level rating of, 'E' to a 'C' by 2029, 'C' to a 'B' from 2029 and 'B' to an 'A' from 2031 onwards.

properties void at year end in Cardiff.

- h. Members welcomed the focus on ensuring good quality of existing Council homes, and in particular, the importance of addressing mould in properties particularly given the current context where some residents may struggle to afford heating their home.
- i. In their 2023 meeting, Committee Members explored if the forthcoming update on the WHQS(2023) may hinder the Councils ability to receive the Major Repairs Allowance Grant and were informed by the executive of their assurance and confidence the grant will be attained as grant requirements are for the Council to continue meeting the *existing* WHQS, and for the Welsh Government to deem the Business Plan as affordable.

Legal Implications

The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any

modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

It is recommended that the Committee:

- i. Consider the proposed draft Business Plan, and decide whether it wishes to relay any comments or observations to the Cabinet at its meeting on the 21st of March 2024 and.
- ii. Decide the way forward regarding any further scrutiny of matters raised.

Leanne Weston

Interim Deputy Monitoring Officer

12 March 2024