

## APPENDIX 11

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

CARDIFF COUNCIL



## APPENDIX 11

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## **1.1 Introduction**

The Housing Revenue Account (HRA) records income and expenditure in relation to Council Housing and is required to be 'ring fenced' in accordance with the Local Government and Housing Act 1989. The ring fencing of the account means that local authorities must not subsidise costs relating to Council Housing from the General Fund (i.e. from Council Tax or from the RSG) or subsidise General Fund costs from the HRA.

The main expenditure items for the Council's 14,020 properties include repairs and maintenance, supervision and management (including tenant consultation, rent collection, housing allocations and property and estate management) and capital financing charges on borrowing (interest and provision for repayment).

The major income streams include rents and service charges.

The above items are in accordance with legislation and the HRA Guidance Manual which sets out the regulations, guidance and best practice relating to the operation of a HRA.

Key services to tenants and leaseholders include management, repair and service costs of the housing stock, tenancy services including anti-social behaviour management, welfare advice and support including the Community Hubs.

Whilst recognising the importance of services to existing tenants, the Council also understands the pressure of housing need in the city. The Council has an ambitious new build programme to help address this and an allocations system that ensures that those with the greatest need are housed first.

## **1.2 Key Objectives and Priorities**

There is a requirement to produce a 30-year business plan for the HRA setting out the service aims and objectives and demonstrating financial viability over the period. This plan is updated annually with the plan for 2024/25 to be considered by Cabinet in March 2024. Key service objectives include the following:

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

## 2.1 Rent Policy Framework

The Council sets the level of rents within a policy framework set by the Welsh Government (WG). The 5-year Social Housing Rent policy was introduced in 2020/21 and will continue until 2024/25 and allows for a maximum 1% rent increase above the rate of the consumer price index (CPI). Where CPI is outside the range of 0 to 3%, a ministerial decision is required for that year.

There is no confirmation of the rent policy approach beyond 2024/25. This and other uncertainties particularly around the impact of inflation represent a significant risk to the resilience of the HRA and business planning as the Council cannot control or accurately predict a key component of the plan.

In line with the current rent policy, a ministerial decision was made on 27<sup>th</sup> October 2023 to limit rents to a maximum increase of 6.7% for 2024/25 for all tenants. It was proposed that Cardiff set its rents at the maximum allowed. This was approved by Cabinet in December 2023 ahead of the 2024/25 budget setting and in line with the new notice period requirement of the Renting Homes Wales Act which stipulates 2 months' notice for tenants.

The Minister also confirmed that the commitments made by social landlords in 2023/24 to prevent evictions and support tenants must continue to be implemented.

The rent setting report to Cabinet in December 2023 approved the 2024/25 rent uplift as being at a level which considered the needs of tenants, affordability and value for money, but which also achieved a sustainable budget for the HRA. Further detail on affordability and value for money is set out in section 4 below.

Future rent modelling has been based on WG guidelines and taking account of forward indicators for inflation factors. These currently indicate CPI at an average 3.0% for 2024/25, reducing to an average 1.6% for 2025/26 and 1.5% for 2026/27, rising to an average 1.8% for 2027/28 before reaching the target 2% by 2028/29.

It is considered that these rent uplifts will allow for obligations to tenants and lenders to be met and help to support the financial viability of the HRA whilst ensuring that rents remain affordable for current and future tenants. This level of increase will also allow for the continuation of the Council's ambitious new build plans and future capital programme.

The average rent for a Council home in Cardiff will increase by £7.92 per week (£8.41 based on 49-week collection) exclusive of service charges for 2024/25. This results in an average weekly rent of £134.02 for standard housing stock. The table below sets out the proposed average rent per property type for Cardiff for 2024/25.

| <b>No. of Bedrooms</b> | <b>Estimated Average Net Rent<br/>2024/25 49 Weeks</b> | <b>Estimated Average Net Rent<br/>2024/25 52 Weeks</b> |
|------------------------|--|--|
| 1                      | £109.22  | £102.92  |
| 2                      | £130.64  | £123.10  |
| 3                      | £154.06  | £145.18  |
| 4                      | £170.85  | £161.00  |

### 3.1 Revenue Budget

The forecast financial position for the Housing Revenue Account for the financial years 2024/25 to 2028/29 is set out below:

|                    |  | 2024/25          | 2025/26          | 2026/27          | 2027/28          | 2028/29          |
|--------------------|--|------------------|------------------|------------------|------------------|------------------|
|                    |  | £000             | £000             | £000             | £000             | £000             |
| <b>Expenditure</b> | Employees                              | 29,972           | 30,724           | 33,214           | 34,096           | 34,870           |
|                    | Premises - Council House Repairs       | 25,826           | 25,674           | 26,127           | 26,704           | 27,316           |
|                    | Premises - Other Repairs & Maintenance | 1,691            | 2,122            | 2,212            | 2,242            | 2,279            |
|                    | Premises - Other Premises Costs        | 7,111            | 6,944            | 7,622            | 8,059            | 8,427            |
|                    | Transport                              | 211              | 214              | 222              | 226              | 230              |
|                    | Supplies & Services                    | 5,310            | 5,119            | 5,789            | 5,971            | 6,005            |
|                    | Third Party Payments                   | 961              | 993              | 1,016            | 1,038            | 1,065            |
|                    | Support Services                       | 8,616            | 8,776            | 8,956            | 9,194            | 9,435            |
|                    | Capital Financing                      | 33,121           | 37,417           | 43,645           | 47,862           | 52,383           |
|                    | Contribution to Reserves               | 1,600            | 1,400            | 0                | 0                | 0                |
|                    | <b>Total Expenditure</b>               | <b>114,419</b>   | <b>119,383</b>   | <b>128,803</b>   | <b>135,392</b>   | <b>142,010</b>   |
| <b>Resources</b>   | Rents and Service Charges              | (105,367)        | (111,957)        | (119,872)        | (125,124)        | (130,803)        |
|                    | Fees & Charges                         | (779)            | (785)            | (791)            | (798)            | (806)            |
|                    | Contribution from reserves             | (1,680)          | 0                | (1,400)          | (2,600)          | (2,600)          |
|                    | Contribution from General Reserve      | 0                |                  |                  |                  | (800)            |
|                    | Other Income                           | (6,593)          | (6,641)          | (6,740)          | (6,870)          | (7,001)          |
|                    | <b>Total Resources</b>                 | <b>(114,419)</b> | <b>(119,383)</b> | <b>(128,803)</b> | <b>(135,392)</b> | <b>(142,010)</b> |

## 3.2 Medium Term Financial Plan

The HRA Medium Term Financial Plan (MTFP) currently indicates a budget gap of £800,000 for the financial year 2028/29 and a further £1 million gap for 2029/30. This is after assumed net drawdowns from earmarked reserves over the period 2024/25 to 2028/29 to manage the medium-term position. It is proposed to use general reserve to cover this gap and to replenish these reserves over the longer-term period.

The budget gap describes the difference between the funding the HRA expects to receive from rents and service charges, and the estimated cost of service delivery and the Capital Programme as currently planned.

This temporary budget gap in the medium term is impacted by increased service demand, inflationary pressures, additional operating costs of new sheltered housing and specialist accommodation schemes and other increased pressures. 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 and results in a temporary budget shortfall. From 2030/31, the rental income for the new properties will offset the additional capital financing costs, removing the budget gap. A contribution from general reserves is needed to bridge this gap until the new rental income is received, after 2030/31 it is estimated that it will be possible to replenish the general reserves.

To ensure the sustainability of the HRA while meeting additional pressures the service 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

As stated above the MTFP as set out in Table 3.1 above assumes use of the General Reserve in 2027/28 and 2028/29 to manage this temporary budget shortfall caused by the timing difference between capital investment in new stock and receipt of rental income. In future years and based on current assumptions the HRA achieves a balanced budget and, after replenishment of earmarked reserves, will be able to replenish the HRA General Reserve.

It will be crucial to revisit and review key assumptions on a regular basis in order to test the robustness of the budget and the business plan over the longer period. Table 3.3 below sets out the key assumptions over the medium term.

### 3.3 Key Assumptions

The table and narrative below set out the key assumptions over the medium term.

|   | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---------|---------|---------|---------|---------|
|   | %       | %       | %       | %       | %       |
| CPI (based on September forecasts)                              | 3.00    | 1.60    | 1.40    | 1.80    | 2.00    |
| Rent Uplifts (inclusive of CPI and based on previous September) | 6.7     | 4.00    | 2.6     | 2.40    | 2.80    |
| Year End Stock Numbers  | 14,243  | 14,472  | 14,818  | 15,041  | 15,297  |
| Bad debts   | 1.00    | 1.00    | 1.00    | 1.00    | 1.00    |
| Void rents  | 1.75    | 1.75    | 1.75    | 1.75    | 1.75    |

Key assumptions and factors which make up the HRA revenue budget proposal and capital investment programme include the following items:

- Rent increases in line with WG guidelines taking account of forward indicators for inflation factors (6.7% uplift for 2024/25, 4% for 2025/26 reflecting the OBR forecast for 2024/25, reducing to 2.6% for 2026/27 and increasing to 2.8% by 2028/29)
- Following the end of the current rent policy term, it is assumed that in the medium term the rent bands remain and that rent uplifts continue to be based on CPI +1% where CPI is within the range of 0 to 3% or CPI only where CPI is outside this range - this is considered a prudent approach
- Stock numbers as assumed using data from the planned new build programme and timings of availability for let
- In the absence of an agreed pay award, an average 3.8% annual uplift is included for 2024/25. This equates to a flat rate award (£1,250) on all spinal points in line with the approach agreed for pay awards for the last 2 years (£1,925 in each of the years 2021/22 and 2022/23). Provision is also made for employers' National Insurance and Superannuation contributions, employee incremental pay progression as well as other full year impacts of the costed establishment including Apprenticeship levies and the Real Living Wage. Pay uplifts at a flat rate of £750 are assumed for 2025/26 and 2026/27 increasing to a flat rate of £1,000 for 2027/28 and 2028/29 but are dependent on a number of variables and are subject to risk of change
- Contributions to earmarked reserves where surpluses allow to offset budget deficits in other years
- Drawdowns as required from earmarked reserves as a result of high inflationary cost increases and capital financing commitments in the medium term – further information is set out in the paragraphs below

- A £25.826 million budget has been set for Council Housing Repairs for 2024/25 reflecting the estimated requirements for both planned and responsive maintenance. This excludes the budgets for planning and clerical processing of repairs which are classed as a management item and not repairs in line with the recommendations of the Housing Guidance Manual
- A planned drawdown of £1.5 million from the Housing Repairs and Building Maintenance earmarked reserve in 2024/25 to fund costs relating to a backlog of responsive repairs
- Estimated staffing structures, operating costs and service charge recovery levels for proposed new older persons Community Living schemes and for additional temporary and family supported accommodation
- Capital financing requirements reflect the current and increasing borrowing requirement proposed in the Capital Investment Programme, interest payable of 4%, and the Council's prudent revenue provision policy
- Receipt of the Welsh Government Major Repairs Allowance grant at a constant level of £9.570 million per annum, whilst costs of works for business planning purposes are assumed to increase by 3.5% p.a.
- External capital grant funding assumptions include significant expectations as a proportion of the city's overall allocation for Social Housing Grant and Transitional Accommodation Capital Programme grant. These grants are usually only available on an annual bid process, so make longer term planning and deliverability uncertain
- Inclusion of estimated costs of a number of new requirements as a result of the updated Welsh Housing Quality Standards 2023 (WHQS 23) with significant budget implications, including the provision of suitable flooring for all habitable rooms, staircases and landings at the change of tenancy, provision of water butts and water savings devices and external equipment storage. In addition, the purchase of a new asset database and costs of ongoing stock condition surveys to improve understanding of stock condition and decision making as a result
- Receipt of Welsh Government revenue grant to contribute towards WHQS 23 costs in 2024/25 (subject to grant award and terms and conditions)
- No amount has been included to reflect the financial impact of meeting the WHQS 23 decarbonisation targets, until there is more clarity on the approach and confirmation of any Welsh Government financial support to meet what are deemed statutory targets.



### 3.4 Capital Investment Programme

|             |  | 2024/25<br>£000  | 2025/26<br>£000  | 2026/27<br>£000  | 2027/28<br>£000  | 2028/29<br>£000  | Total<br>£000    |   |            |
|-------------|--|------------------|------------------|------------------|------------------|------------------|------------------|---|------------|
| Expenditure | Regeneration and Area Improvements         | 2,800            | 2,650            | 1,650            | 2,750            | 2,750            | 12,600           |   |            |
|             | External and Internal Improvements         | 19,850           | 22,205           | 36,975           | 21,265           | 15,225           | 115,520          |   |            |
|             | New Build and Acquisitions                 | 109,730          | 169,045          | 123,215          | 94,010           | 104,750          | 600,750          |   |            |
|             | Disabled Facilities Adaptations            | 3,900            | 3,350            | 3,350            | 3,350            | 3,350            | 17,300           |   |            |
|             | <b>Total Expenditure</b>                   | <b>136,280</b>   | <b>197,250</b>   | <b>165,190</b>   | <b>121,375</b>   | <b>126,075</b>   | <b>746,170</b>   |   |            |
| Resources   | Major Repairs Allowance Grant              | (9,570)          | (9,570)          | (9,570)          | (9,570)          | (9,570)          | (47,850)         | % | 6.4        |
|             | Additional Borrowing                       | (76,502)         | (120,784)        | (80,490)         | (62,065)         | (65,505)         | (405,346)        |   | 54.3       |
|             | Revenue / Reserves                         | (1,400)          | 0                | 0                | 0                | 0                | (1,400)          |   | 0.2        |
|             | External Grant and Contributions Estimates | (48,308)         | (66,396)         | (74,630)         | (49,740)         | (51,000)         | (290,074)        |   | 38.9       |
|             | Capital Receipts                           | (500)            | (500)            | (500)            | 0                | 0                | (1,500)          |   | 0.2        |
|             | <b>Total Resources</b>                     | <b>(136,280)</b> | <b>(197,250)</b> | <b>(165,190)</b> | <b>(121,375)</b> | <b>(126,075)</b> | <b>(746,170)</b> |   | <b>100</b> |

Expenditure commitments proposed over the next 5 years include the following:

- Regeneration and area improvement projects to create better and safer places to live with works including defensible space, road/footpath realignment, improvements to flats, garages, gullies and open spaces
- Investment in existing housing stock for recladding, building safety, priority energy efficiency schemes and to meet Welsh Housing Quality Standards to ensure homes are warm, safe and secure
- Completion of existing house building partnership programme and procurement and delivery of further phases and sites to deliver more homes to tackle the significant affordable housing demand in the city. In accordance with a report considered by Cabinet in December 2023, to also develop actions to tackle the Housing Emergency, with a clear reliance on significant grant funding to ensure plans are deliverable as well as affordable

- Adaptations to dwellings for eligible tenants to live independently and improve their movement in and around the home.

The capital investment programme is reviewed annually in line with the 30-year HRA Business Plan with a detailed schedule to be included as part of the report to Cabinet on the plan.

The capital expenditure commitments for the HRA incurred previously and proposed for the future have a significant reliance on long term and sustainable grant funding in order to be deliverable. In addition, there is a significant need for the Council to borrow in order to invest in homes and to create new assets. This is demonstrated by an increase in what is termed the Capital Financing Requirement (CFR).

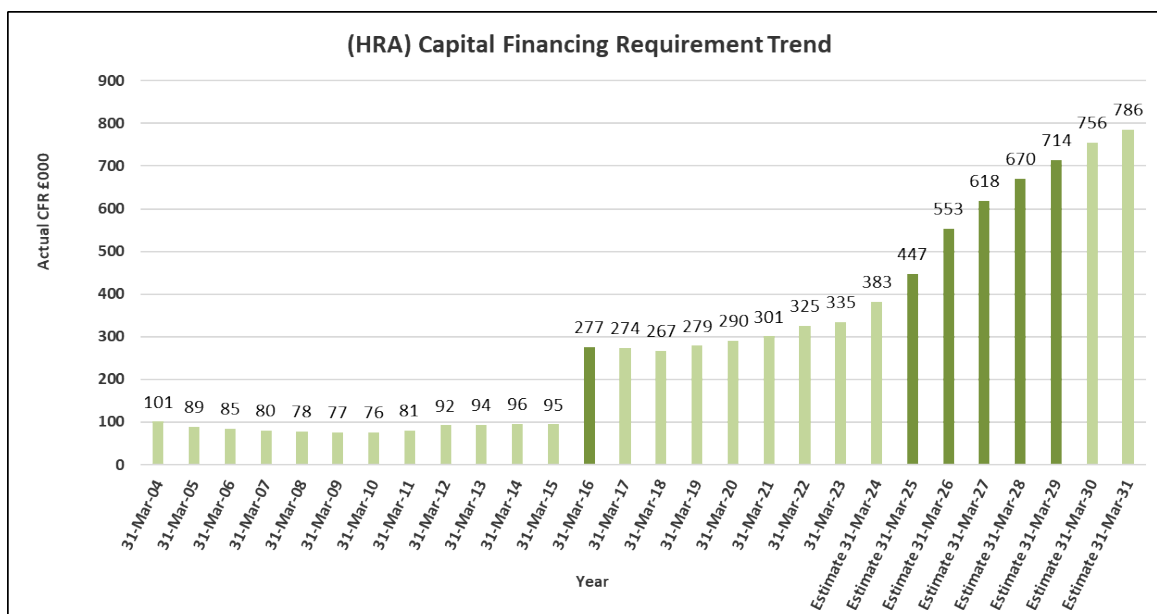
Where capital expenditure has been incurred without a resource such as grant funding to pay for it, this will increase the CFR which is the HRA's underlying need to borrow. A prudent provision is made for the repayment of historic capital expenditure from the revenue budget in line with an agreed policy. This reduces the CFR.

The calculation of the CFR is summarised in the table below.

| <b>Movement</b> | <b>Opening Capital Financing Requirement (CFR)</b>                        |
|-----------------|---|
| +               | Capital expenditure incurred in year                                      |
| -               | Grants, contributions, reserves and receipts used for capital expenditure |
| -               | Prudent Minimum Revenue Provision and Voluntary Provision                 |
| =               | Closing Capital Financing Requirement (CFR)                               |

The chart below shows the historic trend in the CFR for the HRA since the inception of the Prudential Code. This includes the £187 million payment made to HM Treasury to exit the subsidy system in 2015/16 and the significant capital investment over the timeframe of this Medium-Term Financial Plan to increase the level of affordable housing. The CFR continues to increase significantly after 2028/29.

Overall, this represents a more than doubling of the current Capital Financing Requirement and consequential impact on the revenue budget. Entering into commitments for borrowing cannot be reversed. Accordingly, it is essential that the systems, processes and controls that form the basis of demonstrating the viability of the HRA Business plan are developed in line with key risks with independent assessment where required and robust scrutiny to ensure this remains the case.



The Council's housing stock is required to be valued periodically as part of its financial reporting obligations on an Existing Use Valuation basis. The valuation of HRA land and property assets at 1 April 2023 for accounting purposes is £834 million and allows a comparison with the level of CFR at that date only as an indicator of Loan to Value.

The revenue budget impact of capital schemes for rent payers includes:

- The costs of operating/maintaining new assets
- The capital financing costs of servicing any borrowing required to pay for investment (interest and the Council's approach to making prudent provision for repayment of capital investment paid for by borrowing)
- The revenue costs of preparing and delivering projects
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all costs of that investment may be offset by financial and non-financial benefits such as additional rental income, cost avoidance and improved outcomes for rent payers. Whilst additional income may be receivable from rent, without grant income towards costs, rental income will not fully cover costs. Financial viability tools and rigorous governance are essential in ensuring borrowing remains prudent, affordable and sustainable to ensure the long-term viability of the HRA.

The table below shows two ratios highlighting the impact of the increasing borrowing requirement on the net revenue stream (rental and service charge income for the year).

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

Whilst the financial model currently indicates that the Business Plan is viable over the 30-year period, the MTFP identifies a number of significant risks to variables that will need to be reviewed in detail and appropriate controls put in place to mitigate and manage any changes to assumptions.

## 4. Affordability and Value For Money

### 4.1 Affordability and Value for Money

The WG Social Housing Rent Policy recognises the need to balance the needs of landlords and the interest of tenants. The policy includes a requirement that social landlords make an annual assessment of affordability, cost efficiencies and demonstrate that their homes and services represent value for money.

The WG consider that affordability should include all costs of living in a property including rent, service charges and energy costs.

The rent setting report was considered by Cabinet in December 2023. This report detailed the review and outcomes of an exercise carried out to establish the affordability of living in a council property in Cardiff, using the Joseph Rowntree Foundation (JRF) Living Rent Model. This exercise established that the proposed rents for 2024/25 were well below the JRF living rent.

To provide support that tenants need, a wide range of high-quality services are provided to council tenants. These include the Welfare Liaison Team that helps to maximise income and prevent arrears and a Tenancy Sustainment service that supports the most vulnerable tenants. Where rent arrears have accrued, the Council's rent arrears pathway will support tenants whether they are in receipt of benefits or not. As part of the pathway, a new Discretionary Housing Fund was introduced for council tenants in 2023 to provide practical support to reduce or remove arrears. It is clear aim of the housing service to prevent unnecessary legal action and evictions and the service works proactively to prevent homelessness wherever possible with additional services in place for tenants with support needs. There is therefore full commitment to the Welsh Government's requirement that no one will be evicted for rent arrears if they are engaging with the services available.

Value for Money is achieved by focusing on key priorities in the pursuit of social objectives that benefit a range of stakeholders/service users and delivering these priorities in an effective and efficient way. Cardiff aims to achieve this in the following ways:

- Maintaining homes to a high standard
- Building new homes
- Delivering a high standard of tenancy services
- Community investment such as work to increase employability, financial, digital and social inclusion
- Meeting the housing needs of the most vulnerable
- Preventing evictions
- Supporting people to live independently
- Supporting national and local policy objectives.

In order to continue to demonstrate value for money, during 2024/25 and in future years, the Council will undertake the following:

- Review all costs to reflect activity and value for money

## 4. Affordability and Value For Money

- Increase the use of digital services to reduce costs and provide a better customer experience whilst still offering tailored, 1-2-1 support for those that need it
- Seek opportunities to undertake external benchmarking and self-assessment with peers
- Continue to follow the Council's best practice in relation to procurement of goods and services
- Secure maximum value from assets through an understanding of stock and making intelligent (social) business decisions based on that understanding.

This will necessitate an understanding of:

- The condition of stock
- Maintenance costs and investment needs
- Demand within our communities
- Performance of the stock at an appropriate and proportionate level of detail
- Variation in performance across the stock
- Priorities for improvement.

A new asset database will be procured in 2024/25 that will help to achieve this.

### 4.2 Cost Efficiencies

The report to Cabinet in December 2023 recommended the approach to the setting of rents and service charges and outlined a review of the HRA which took place within the Directorate to identify potential efficiencies. These are outlined in the table below:

| <b>Service Change</b>  | <b>Saving</b> |
|--|---------------|
| Reduction in staffing costs through deletion of vacant posts or through the voluntary severance process where those changes can be made with no significant service changes. | £400,000      |
| Reduction in HRA recharges   | £74,000       |
| Full alignment of the Welfare Liaison Team with the Advice Service, creating efficiencies and providing an enhanced service for tenants                                      | £62,000       |
| Alignment of senior manager roles  | £108,000      |
| Income opportunities within Community Hubs   | £20,000       |

It anticipated that savings identified in these areas will mitigate the estimated £537,000 revenue shortfall arising as a result of the 6.7% rent increase and other cost pressures within the HRA. An Equality Impact Assessment and relevant consultation has been completed where required. This has resulted in the reduction of 16.5 FTE posts.

Additional opportunities for service change that will create savings continue to be explored, including:

## 4. Affordability and Value For Money

- Further increasing opportunities for digitalisation – including the implementation of the My Repair digital solution and reviewing current digital solutions to create efficiencies.
- A review of the Caretaking Team to ensure works are carried out by the most appropriate operatives.
- Full review and documented service level agreements of recharges to and from the Housing Revenue Account, which captures the basis of any recharge, activity levels and an identified and documented performance review process.

### 4.3 Financial Resilience

Key financial and operational risks for the HRA are set out in the Risk Matrix at 5.1 below. The Council has embarked on a circa £900 million new build programme to meet the housing needs of current and future generations. This creates a number of additional risks to financial resilience which must be monitored and managed closely.

The Council will do this by:

- Ensuring that a HRA General balance is maintained at a level that is commensurate with the risks identified in the Medium-Term Financial Plan
- Maintaining specific earmarked reserves in the longer term to mitigate against increasing and unforeseen costs in respect to the new build programme such as the price of materials, uncertain rent policy
- Consider opportunities during the year to review and update the key assumptions and variables within the 30-year business plan aligned to budget monitoring and risks identified
- Continuing to liaise and consult with the WG on future rent policy, highlighting the risk of reliance on future rent increases which are required to ensure that capital commitments currently being entered into remain viable
- Deliverable scenario planning for budget setting, identifying a pipeline of savings opportunities to mitigate and manage an unforeseen or adverse financial impact
- Ensuring improvements in asset management practices and systems to support an understanding of the condition of existing stock and the costs of maintaining it are included in budget and business plan forecasts
- Regular monitoring and review of expenditure against approved budgets at a senior management level, with an enhanced process for understanding the in-year impact of variances e.g. changes in scheme costs and grant income assumptions on the budget framework
- Use of approved viability assessment tools against agreed benchmarked parameters to ensure new build and property acquisitions are affordable and sustainable having regard to variables such as initial cost, ongoing maintenance and repayment of borrowing and rent levels
- Compliance with the terms of reference set by the Housing Development and Capital Finance Board in respect to approval of viability assessments or changes in sites proposed for new housing development

#### 4. Affordability and Value For Money

- Tracking of external grant or subsidy to support the costs of development and clear rational to proceed with a project where such funding is not available as part of a viability assessment brought forward for approval.
- Seeking to develop with Welsh Government, a longer term and certain grant funding allocation that would help to ensure the commitments proposed in the capital investment programme are both deliverable and affordable.
- Understand where there are gaps in the capital investment programme, quantify those gaps and work with Welsh Government to develop an affordable funding strategy prior to implementation of works such as the Decarbonisation requirements of the WHQS 23.



## 5. Key Risks and Uncertainties

### 5.1 Key Risks and Uncertainties

Key risks and uncertainties which could impact on the budget proposals for 2024/25 and the medium term include the following:

| Risk Description   | Impact  | Pre-Mitigation Risk Analysis | Mitigating Controls  | Post-Mitigation |
|--|---|------------------------------|--|-----------------|
| <p><b>Restricted rent uplift in future years due to changes to the rent policy beyond 2025/26 or to levels of CPI</b></p> <p><b>Uncertainty over stream of income (rents and service charges) means there is no control.</b></p> | <p>Potential impact on level and quality of service provision to tenants and capital schemes that can be taken forward.</p> <p>Impact of affordability, prudence, and sustainability of additional borrowing.</p> <p>Impact on local and national affordable housing targets.</p> | <b>Red</b>                   | <p>Scenario planning exercise to review revenue operating costs to identify savings and acceptable impact.</p> <p>Review and reprioritisation of the whole Capital Programme and realignment of future spend plans.</p> <p>Continue to liaise and consult with the WG on future rent policy highlighting the importance of ensuring that capital commitments currently being entered into remain affordable.</p> <p>Use of earmarked reserves and general balances to support financial resilience</p> | <b>Red</b>      |
| <b>Cost inflation increase above rent uplifts</b>  | Increase in costs of supervision, management and repairs and maintenance,   | <b>Red</b>                   | Review and reprioritise revenue operating costs and reduce or defer planned expenditure  | <b>Amber</b>    |

## 5. Key Risks and Uncertainties

| Risk Description  | Impact   | Pre-Mitigation Risk Analysis | Mitigating Controls   | Post-Mitigation |
|---|--|------------------------------|---|-----------------|
|   | including capital contracts.<br><br>Increased cost of energy and fuel.   |                              | (in line with stock condition requirements), including within the Capital Programme where any variations to planned spend are not committed.  |                 |
| <b>A reduction in the (£9.57m per annum) WG Major Repairs Allowance (MRA) grant</b> | Impact on achievability and ongoing maintenance of WHQS.<br><br>Impact on the achievability of the Capital Programme.  | <b>Red</b>                   | Review and reprioritise revenue operating costs.<br><br>Reprioritisation of the Capital Programme.<br><br>Reduce new build or regeneration development programme where other realignment is not possible.   | <b>Amber</b>    |
| <b>Failure to meet new build housing programme targets</b>                          | Failure to reduce housing waiting list due to delays to timing of lettings of new build properties. Impact on temporary accommodation and homelessness.<br><br>Holding costs of vacant sites and revenue costs of development teams. | <b>Red</b>                   | Contractual commitment and variance monitoring by budget holder. Finance and performance targets reported to the Housing Development and Capital Finance Board.<br><br>Using a range of procurement routes including a new partnering scheme and working directly with developers on package deals. | <b>Amber</b>    |

## 5. Key Risks and Uncertainties

| Risk Description  | Impact   | Pre-Mitigation Risk Analysis | Mitigating Controls  | Post-Mitigation |
|---|--|------------------------------|--|-----------------|
|   | Reduction or delay in rental income receivable and resources available to support the HRA budget.  |                              | Purchasing properties direct from the market to mitigate any delay.  |                 |
| <b>Treasury Management</b>  | Unplanned increased interest cost payable for any capital expenditure incurred or planned to be incurred which is to be paid for by borrowing. | <b>Red</b>                   | <p>Integrated Council wide Treasury Management policy and strategy</p> <p>Borrowing at fixed rates where possible to ensure certainty for business planning.</p> <p>Annual Viability parameter governance and approval by Governance Board to control risk.</p> <p>Review of affordability indicators highlighting risk of Capital Financing costs as % of Net Revenue Stream.</p> | <b>Amber</b>    |
| <b>Challenge of Decarbonisation</b><br><br>WHQS23 guidance sets a target date of 31/03/2030 to achieve SAP 75 (EPC energy rating of C) and of | Failure to plan and invest strategically to meet carbon reduction targets could result in failure to meet WG target.                           | <b>Red</b>                   | Work closely with WG to understand key requirements, targets, delivery methods and costs and any penalties for noncompliance.  | <b>Red</b>      |

## 5. Key Risks and Uncertainties

| Risk Description  | Impact  | Pre-Mitigation Risk Analysis | Mitigating Controls   | Post-Mitigation |
|---|---|------------------------------|---|-----------------|
| 31/03/2034(or as defined by the target energy pathways) to achieve SAP EPC energy rating of A. Significant external funding for retrofit programmes and technological advances will be required to achieve the shift from EPC C to A. | <p>Impact on tenants' energy costs.</p> <p>The requirement to meet the cost of decarbonisation without additional funding will impact on other programmes of capital expenditure and result in significant unfunded revenue budget consequences resulting in an unviable business plan.</p> |                              | <p>Raise awareness with WG of the cost of meeting the targets and the need for grant funding to fully offset these costs.</p> <p>Commissioning of target energy pathways for each property to map the work required to achieve the targets (subject to WG funding and clarification of requirements)</p> <p>Implementation of a new Asset Management database to better record the work needed/ completed at each property.</p> <p>Pilot renewable technology to better understand how the challenge of decarbonisation can be met.</p> |                 |

## 5. Key Risks and Uncertainties

| Risk Description   | Impact   | Pre-Mitigation Risk Analysis | Mitigating Controls  | Post-Mitigation |
|--|--|------------------------------|--|-----------------|
|  |  |                              | Ensure new build homes meet the standard to avoid future retrofit.   |                 |
| <b>The levels of Welsh Government Grant assumed receivable</b> | Initiatives such as high rise overcladding and new build programme are neither viable or deliverable.  | <b>Red</b>                   | <p>Entering into contracts only after confirmation of grants of sufficient level to cover the cost of the works.</p> <p>Early discussion with WG re housing pressures in the City and prioritisation of Cardiff for TACP and SGH funding for certainty of development schemes without incurring abortive costs</p> | <b>Amber</b>    |
| <b>Cost-of-Living Crisis</b>                                   | <p>Impact of cost-of-living crisis on tenants' ability to pay rent and service charges, resulting in increased arrears, requirement for bad debt provision and increased debt collection and recovery costs.</p> <p>Reduction in</p> | <b>Amber</b>                 | <p>Any rent increase is informed by an affordability assessment to ensure tenants can afford to pay the rent.</p> <p>Information and advice to tenants, e.g. through Welfare Liaison, Advice and Into Work Services.</p> <p>Maximisation of income by promotion of available benefits and specific support</p>     | <b>Green</b>    |

## 5. Key Risks and Uncertainties

| Risk Description  | Impact  | Pre-Mitigation Risk Analysis | Mitigating Controls  | Post-Mitigation     |
|---|---|------------------------------|--|---------------------|
|   | rental income receivable and resources available to support the HRA budget.                                     |                              | <p>Ensuring effective rent arrears procedures are in place, including pathway of support for tenants and introduction of new Discretionary Housing Fund, exclusively for council tenants</p> <p>Regular review of bad debts provision</p> <p>Annual service review to ensure value for money and maximisation of use of resources.</p> |                     |
| <b>Ensuring the accuracy of stock condition data, including the implementation of new standards</b> | Planned improvement schemes are incorrectly budgeted for and timescales to deliver are potentially unrealistic. | <b>Amber</b>                 | <p>Stock condition data is continuously updated with live data and opportunities to survey properties taken to minimise inaccurate information.</p> <p>New Asset Management Database to be purchased and populated with updated property condition and energy pathway data.</p>  | <b>Amber</b>        |
| <b>Increased demand for services –</b>  | Conflicting priorities within the available   | <b>Amber</b>                 | Tenant engagement and consultation.  | <b>Amber/ Green</b> |

## 5. Key Risks and Uncertainties

| Risk Description  | Impact  | Pre-Mitigation Risk Analysis | Mitigating Controls   | Post-Mitigation |
|---|---|------------------------------|---|-----------------|
| <b>Increased housing need, tenant support and advice, increased repairs and maintenance</b> | resources resulting in the need to ensure service delivery achieves maximum impact. |                              | Robust business planning and budget setting around identified priorities. Management and monitoring of performance and against key performance indicators (KPIs).   |                 |
| <b>Resilience of the HRA in the face of global issues – refugees, conflict</b>              | Implications on existing resources.   | <b>Amber</b>                 | Impact of global issues on the HRA to be monitored and appropriate mitigation put in place as required.<br><br>Seek national support and guidance where required.<br><br>Reprioritisation of resources as required. | <b>Amber</b>    |

Review and monitoring of the financial and wider risks identified for the Housing Revenue Account takes place as part of the Directorate's risk identification and monitoring process.

HRA risks are considered within the Directorate Operational Risk Register which is reviewed and updated quarterly.

The development and progress of the New Build programme is reported to and monitored at the Housing Development and Capital Finance Board which meets bi-monthly.

The revenue and capital financial position is considered as part of regular monthly monitoring and reporting processes.

## 5. Key Risks and Uncertainties

### 5.2 Sensitivity Analysis

The assumptions as detailed within 3.2 above are based on best information and will be subject to a risk of change. The table below sets out key areas of sensitivity and their potential annual impact based on the financial year 2024/25.

This is on the assumption that all other factors remain constant, and no mitigation/offsetting actions are in place. In reality, as set out within the Risk Matrix table at 5.1 above this would need to take the form of numerous and varied measures to ensure a viable financial position.

(+ = negative impact, - = positive impact)

| Key Variable 2024/25              | Revised Key Variable              | Financial Impact 2024/25 £ | Service Impact   | Revised Key Variable              | Financial Impact 2024/25 £ | Service Impact   |
|-----------------------------------|-----------------------------------|----------------------------|--|-----------------------------------|----------------------------|--|
| CPI and rental income due 6.7%    | CPI and rental income due 5.7%    | +£0.862m                   | A 1% reduction in the level of CPI reduces rental income and available revenue resources impacting the flexibility in service provision and ability to meet tenant priorities. Also impacting on ability to meet financial commitments and increasing risk to the affordability of the capital programme in the medium term. | CPI and rental income due 7.2%    | -£0.431m                   | A 0.5% increase in the level of CPI increases rental income and available revenue resources. These additional resources would enable strategic decision making including early repayment of borrowing, increased service investment or set aside of reserves to enhance future financial resilience. |
| Employers' Pay Award Average 3.8% | Employers' Pay Award Average 2.8% | -£0.393m                   | A 1% reduction in pay award results in a reduced funding requirement increasing the flexibility to progress other plans and priorities.  | Employers' Pay Award Average 5.8% | +£0.786m                   | A 2% increase in pay award results in an increased funding requirement and the necessity to review and flex other plans and priorities.  |
| Interest payable 4%               | Interest payable 3.5%             | -£2.075m                   | A reduction of 0.5% in interest rates reduces interest payable resulting in additional revenue resources available for other   | Interest payable 5%               | +£4.151m                   | An increase of 1% in interest payable impacts on the revenue resources available to fund the planned Capital Programme and could result in a   |



## 5. Key Risks and Uncertainties

| Key Variable 2024/25 | Revised Key Variable | Financial Impact 2024/25 £ | Service Impact  | Revised Key Variable | Financial Impact 2024/25 £ | Service Impact   |
|----------------------|----------------------|----------------------------|---|----------------------|----------------------------|--|
|                      |                      |                            | plans or to set aside for increased financial resilience.   |                      |                            | requirement to reduce planned service investment and identify other efficiencies such as use of reserves in the short term.  |
| Void rent loss 1.75% | Void rent loss 1.25% | -£0.460m                   | A 0.5% decrease in the void rent loss increases potential rental income and the resources available to fund planned programmes of investment and service provision. | Void rent loss 2.75% | +£0.920m                   | A 1% increase in the void rent loss reduces potential rental income available and will necessitate service efficiencies and a review of plans and priorities including use of reserves to mitigate any impact in the short term. |
|                      |                      |                            |   |                      |                            |  |

(+ = negative impact, - = positive impact)