Arun District Council

REPORT TO:	**Housing & Wellbeing Committee on 25 January 2023**
SUBJECT:	**Annual Update Housing Revenue Account Business Plan**
LEAD OFFICER:	**Moh Hussein, Interim Head of Housing**
LEAD MEMBER:	Councillor Jacky Pendleton
WARDS:	**All**

CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:

- Improving the wellbeing of Arun

  The HRA Business Plan underpins the sustained delivery of landlord services to our community of tenants and residents; ensuring tenants homes are safe and decent places to live.
- Delivering the right homes in the right places

  The HRA Business Plan enables medium and long-term planning of development and acquisition of new, more sustainable homes for our community.

DIRECTORATE POLICY CONTEXT:

Our Housing & Homeless Strategy sets four main objectives:

- Increase housing supply across all tenures
- Prevent & relieve homelessness
- Improve housing conditions across all tenures
- Create sustainable communities to meet the needs of all residents

The HRA Business Plan is the financial basis upon which all our strategic and operational work relies. As such it is consequential to all our key priorities.

FINANCIAL SUMMARY:

The financial implications are detailed in the report

1. PURPOSE OF REPORT

1.1 This report provides the annual update on the baseline position for the Housing Revenue Account Business Plan projections. The HRA Business Plan forecasts income, expenditure, investment and borrowing in respect of council housing stock over a 30-year period.

1.2 Regular review of the HRA Business Plan is essential to ensure its continued viability. This update has been produced by the Council’s retained expert consultant; Housing Finance Associates, and is based on the Council’s best available information and realistic assumptions for the coming years.

2. RECOMMENDATIONS

Housing & Wellbeing Committee RECOMMEND to Full Council:

2.1 That the annual update of the Housing Revenue Account Business Plan 2022/23 be noted.

3. EXECUTIVE SUMMARY

3.1 The HRA Business Plan 2017-2047 was approved by Full Council in September 2017. The primary objectives of the plan are to:

- Increase the housing stock
- Ensure housing assets are fit for purpose
- Maximise income and make the best use of available resources

3.2 This updated briefing highlights challenges for the Housing Revenue Account in the short to medium term. Whilst the plan remains viable our minimum balances are projected to be below our £2M threshold for up to 7 year.

3.3 In order to address these challenges, measures are already being developed to improve efficiency and financial sustainability. These include:

- Delivery of substantial cost reductions and efficiency gains from the costs of managing and maintaining the authority's housing stock
- A review of its approach to charging for services, with a view to increasing cost recovery over time
- Adjustment of the charges made for depreciation, so that they reflect the useful life of council dwellings and their components
- Greater use of borrowing to part-finance the HRA capital programme. This helps to spread the cost over a number of years, helping to reduce pressure on the HRA.

4. Detail

Baseline position

Baseline assumptions

4.1 Assumptions made in the baseline scenario are based on the following information sources:

4.1.1 Draft medium term revenue HRA budgets for 2022/23 to 2028/29. These include provision for a substantial efficiency programme to the costs of housing management and repairs.

4.1.2 Draft medium term capital HRA budgets for 2022/23 to 2027/28. In addition to the ongoing major works to the authority's housing stock, this includes provision for:

- investment in the authority's sheltered schemes totalling £6.000m between 2023/24 and 2025/26
- decarbonisation works of £3.000m in 2023/24

4.1.3 Information from the stock condition survey relating to long term stock investment needs from 2028/29

4.1.4 The new build programme under development by the council, which allows for:

- New build on sites part-funded by 141 RTB receipts
- New build on existing garage sites

4.1.5 141 RTB capital receipts are utilised to pay for new dwellings where they are available

4.1.6 Rent loss from voids and bad debts is in line with the draft HRA budgets

4.1.7 Rent increases are as follows:

- For 2023/24 we have assumed the rent increase is 7%. This is the maximum rent increase permitted in 2023/24 for existing general needs tenants under the Rent Standard and the government's policy statement on rents for social housing.
- For 2024/25 we have assumed a rent increase of 6.2%. This reflects projected CPI of 5.2% in the final quarter of 2023 (Bank of England), plus 1% and reflects previously stated government policy
- We anticipate a consultation from government during 2023 on rent increases from 2025/26 onwards. Pending this consultation we have made the prudent assumption that rents will increase at CPI.

4.1.8 Inflation projections reflect the Bank of England Monetary Policy Report published in November 2022, plus long-term government targets for CPI.

4.1.9 A £2.000m minimum balance on the HRA

4.1.10 The projections assume 6 right to buy (RTB) sales a year from 2023/24 onwards. This is slightly lower than the average of 7 sales a year over the past 4 years, as we expect economic factors to make it less affordable for some tenants to buy their home.

4.1.11 RTB sales generate different types of receipt, which may be treated differently by the authority. We anticipate that the total level of receipts available to the HRA will be in the region of £600,000 pa. Of the receipts generated, we have assumed that only "retained 141 receipts" will be available for use by the HRA, which is in line with the authority's current policy. "Allowable debt" and "LA share" receipts are projected to generate a further £200,000 pa for the authority from RTB sales. We have assumed that the council would not make allowable debt and LA share receipts available to the HRA, as its current policy is to use them for non-HRA purposes.

4.1.12 Note that "retained 141 receipts" can only be used to pay for up to 40% of the cost of a new home and must be spent within 5 years of receipt. Any receipts that are unspent after 5 years must be paid to the Government, plus penalty interest. The authority fully utilises its “retained 141 receipts” within the timeframe set, and had spent all of these receipts at the beginning of 2022/23.

4.2 For the purposes of showing the affordability and sustainability of spending decisions, the forecast assumes that the authority repays debt as quickly as possible.

4.3 Note that this baseline projection makes no allowance for further growth pressures or additional costs. In particular, it excludes:

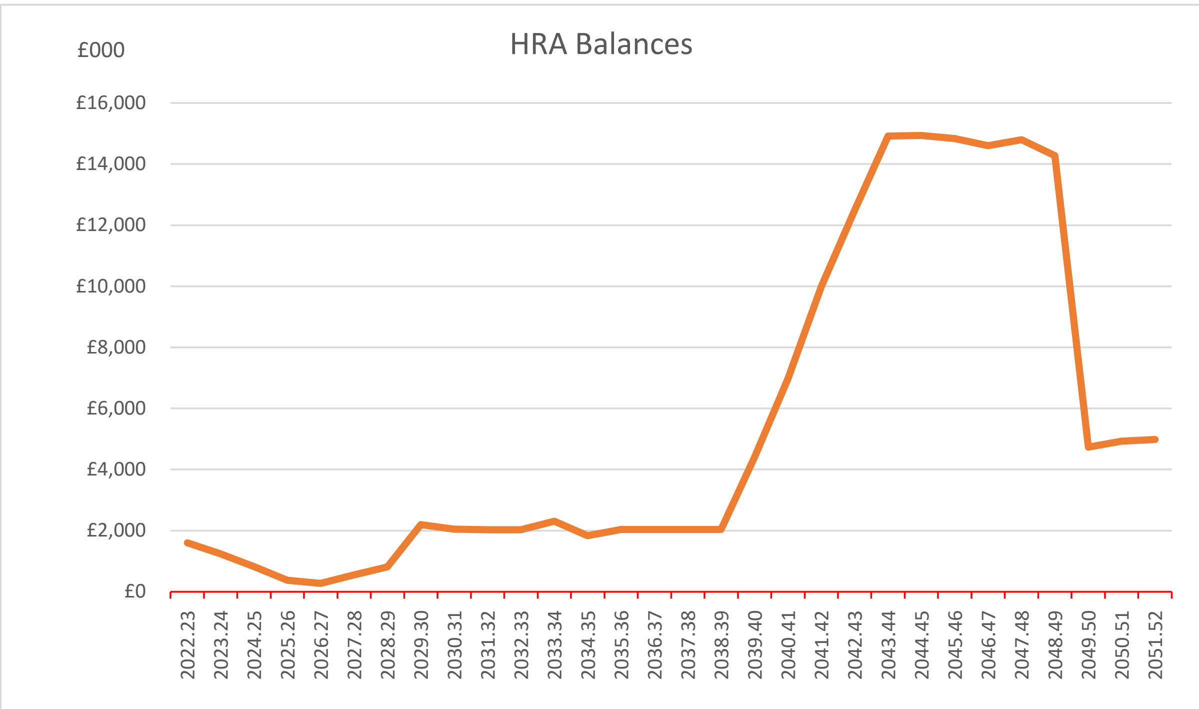
- any additional spending required by the council after 2023/24 to deliver energy efficiency improvements and decarbonisation for its existing stock
- changes to the decent homes standard
- changes to regulatory requirements

4.4 Key assumptions within the baseline projections are also subject to change, as a result of changes in the underlying economic factors (such as interest rates and inflation rates). We have not conducted a full stress test of these projections, but can advise that any circumstances that increase net costs to the authority would impact on the position of its HRA adversely. For this reason we advise regular review of the underlying data and stress testing of the assumptions. This will allow the authority to identify emerging risks and take appropriate mitigating action at an early stage.

The effects of the baseline assumptions are shown in the following section.

Baseline - revenue forecast

4.5 The chart below shows the authority’s ability to maintain a minimum level of balances during the 30 year period covered by the forecast:



In this chart the orange line forecasts the accumulated balance at the end of each year.

4.6 The authority has recently experienced substantial overspending against its revenue budgets. Officers are working on immediate measures and a medium term plan to rectify the situation. The projections show that the HRA will need to continue drawing on balances while this plan is delivered, causing the projected balance remain below the minimum level set of £2.000m until 2029/30. This mirrors the draft medium term budgets provided by the Council.

4.7 From 2029/30 onwards the projections seek to maintain a minimum balance of £2.000m, utilising any balances above that level to help repay debt and finance the HRA capital programme. Balances are maintained at the minimum level from 2029/30 to 2038/39, after which they accumulate until required to repay debt.

4.8 As part of its response to overspending on the HRA the draft medium term plan considers a range of key measures, which have been reflected in the baseline projections. These include:

- Delivery of substantial cost reductions and efficiency gains from the costs of managing and maintaining the authority’s housing stock
- A review of its approach to charging for services, with a view to increasing cost recovery over time
- Adjustment of the charges made for depreciation, so that they reflect the useful life of council dwellings and their components
- Greater use of borrowing to part-finance the HRA capital programme. This helps to spread the cost over a number of years, helping to reduce pressure on the HRA.

4.9 The authority’s inability to maintain a minimum HRA balance while it implements its medium term plan to address overspending requires represents a key risk to the authority. It will therefore be important to keep the situation and progress against the authority’s action plan under review. The council should also explore the use of additional measures to help mitigate the situation over the medium term.

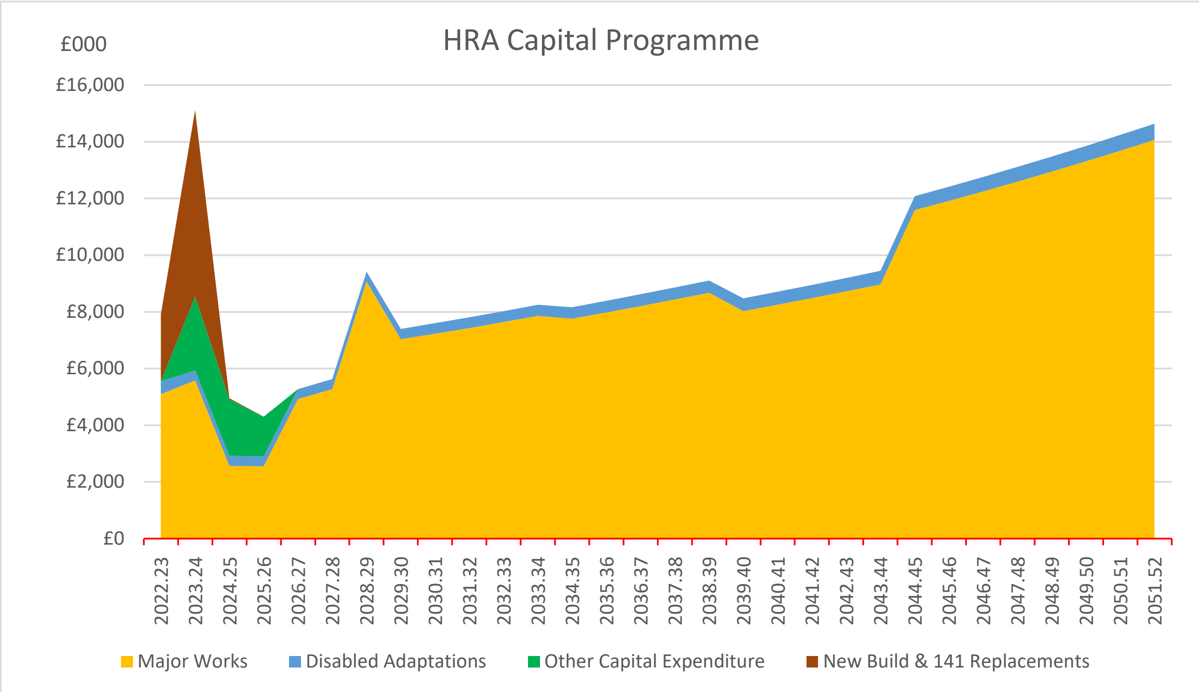
Work is already being undertaken designed to reduce management and maintenance costs with the implementation of new ways of working, a review of the structure and resources and a review of our purchasing arrangements. There is also work being undertaken to improve value for money in the repairs service through more competitive procurement, a sustained planned maintenance programme and improved scrutiny of works completed. The plan for cost savings is as follows:

	22/23 £’000	**23/24 £’000**	**24/25 £’000**	**25/26 £’000**	**26/27 £'000**	**27/28 £'000**
Supervision & Management	5,959	6,236	6,548	6,675	6,804	6,935
Efficiency savings–		(187)	(384)	(584)	(788)	(996)
Repairs & Maintenance	7,182	6,099	6,543	6,640	6,752	6,900
Efficiency savings		(143)	(390)	(642)	(928)	(946)

The figures in the table above are December forecasts and may not be completely consistent with actual budgets.

Baseline -capital programme

4.10 The next chart for the baseline presents the authority's HRA capital programme, within the available resources. It shows the capital expenditure required each year, identifying the main types of expenditure separately:

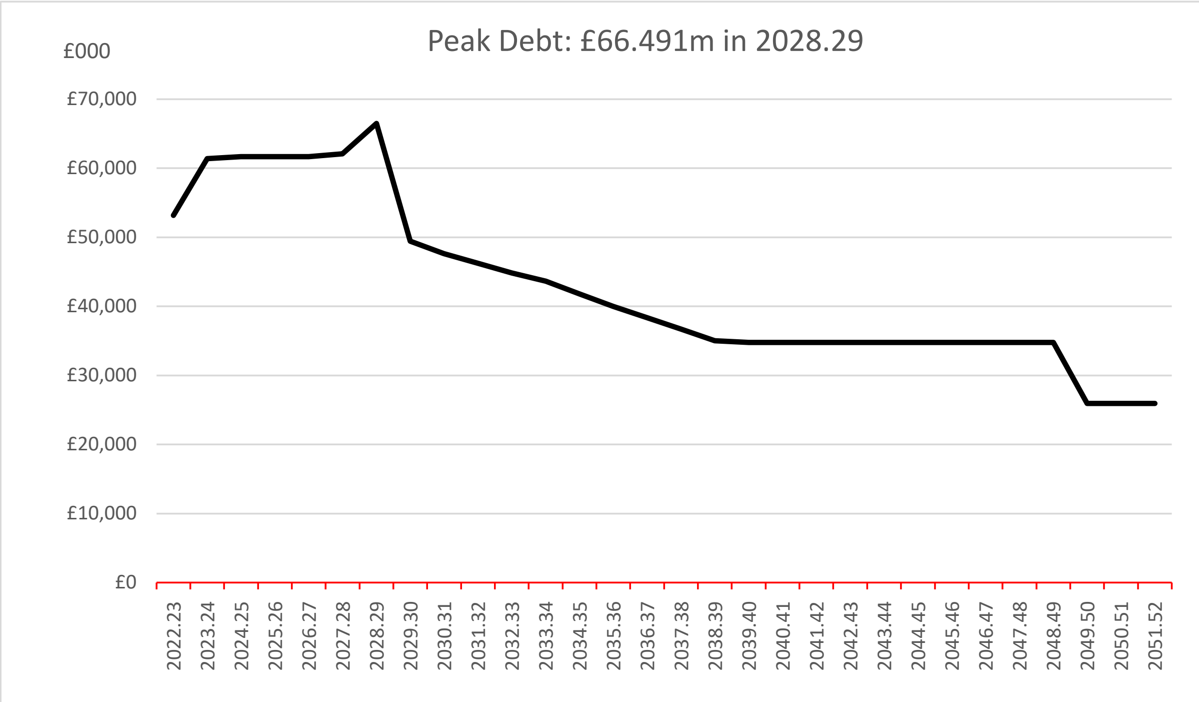


4.11 The baseline position allows for the addition of 35 properties over 2022/23 and 2023/24. Expenditure on these units appears as the brown area of the graph. Presently, this shows the existing development and acquisition pipeline. As we start to realise efficiency improvements this forecast will be extended to include forecast additional units. The chart also includes a three year programme for investing £6.000m in its sheltered stock, which forms the main part of the green area. The sheltered housing review has been completed and will be used as the basis of allocating redevelopment and regeneration spend on older person housing.

4.12 The Authority can finance this capital programme from the projected resources that are at its disposal, along with some additional borrowing. This means that the baseline levels of capital investment are affordable and fully financed throughout the planning period. The baseline levels are based around stock condition data gathered in 2017/8 and reflect the conditions of major components, allowing for Covid-19 impacts on delayed programmes over the last three years.

Baseline – debt

4.13 The next chart forecasts movements in the level of HRA debt during the planning period:



4.14 The resources generated by the baseline position mean that the authority needs to borrow to deliver its capital programme until 2028/29, with HRA-related debt reaching a peak of £66.491m in that year. It can start to repay the additional debt from 2029/30, once it is able to reach and maintain its minimum HRA balance.

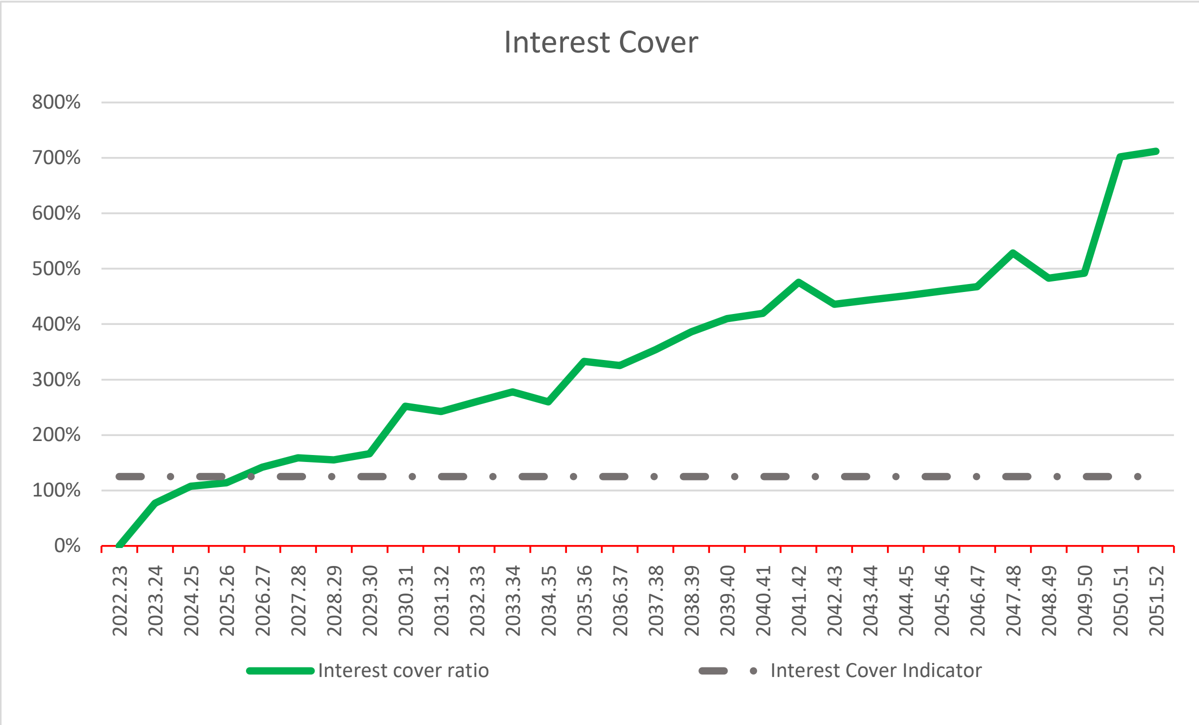
4.15 By the end of the 30 year period debt drops from its peak level to £25.931m. This relates to existing external loans that are not due to be repaid until later years (£8.860m) and internal borrowing from other parts of the council (£17.071m).

4.16 On these assumptions the Authority is able to repay most of the borrowing required over a reasonable period, suggesting that the baseline programme is affordable and sustainable. However, this relies on the underlying baseline assumptions, plus delivery of a medium term plan to improve the financial position of the HRA.

4.17 We recommend that the authority adjusts its approach to financing the capital programme (including its use of borrowing) to safeguard the delivery of an affordable and sustainable financial position.

Baseline – affordability

4.18 The ability of the authority to repay debt within a reasonable timescale, as covered in the previous section, is a key indicator of the long term affordability of the authority’s projections. Alongside this we have also considered the level of interest cover provided by the operating surplus on the HRA, which is shown in the chart below:



4.19 Interest cover measures the ability of the HRA to pay for the costs of borrowing out of the surplus it generates from its operating income and expenditure. When costs or income go up, interest cover performance drops and vice versa. The green line on this chat shows the interest cover performance of the HRA over time. The dashed grey line indicates a performance level, where the HRA can pay the cost of its interest charges, plus a further 25%. When performance is below the grey line, the authority should take action to reduce costs or increase income.

4.20 The currently high operating costs of the HRA mean that interest cover performance is very low over the medium term, but rises above the interest cover indicator from 2026/27 as a result of the actions to minimise cost and increase income that are included within the baseline assumptions.

4.21 It would be unaffordable for interest cover to remain at the initial levels, as it would force the HRA into a (potentially unlawful) deficit position. It is therefore important that the authority prioritises its plans to restore the HRA to a sustainable financial position.

Baseline - summary

4.22 The baseline position for the HRA reflects the best available information on the available resources and need to spend on council housing for the foreseeable future. The projections show that the current cost base is very high and needs to be reduced as quickly as possible to improve the financial position of the HRA.

4.23 The level of investment required in the existing stock of council homes means that the authority will need to use greater use of borrowing to help finance the work required. Borrowing at the levels shown in this report means that the authority can meet its existing plans for investment.

4.24 The baseline projections indicate that the investment assumed is broadly affordable and sustainable, as long as the authority is able to implement substantial cost reductions in the early years. To minimise associated risks, the authority should prioritise plans to improve the financial position of the HRA.

4.25 The authority could also improve the financial position of the HRA and reduce its reliance on debt by making additional capital resources available to the HRA capital programme (such as other receipts from the sale of homes under the right to buy, from market sales or the disposal of other council assets, or by accessing external funding streams). As a general rule, the authority should seek to minimises operating costs for the HRA, while maximising income.

4.26 Note that this baseline projection makes no allowance for further growth pressures or additional costs, for example from decarbonisation works after 2023/24, compliance requirements, or higher interest charges. Any such pressures would impact negatively on the financial capacity of the HRA, unless the authority is able to take compensating actions. Such actions might include making cost savings, generating additional income, or making alternative funding sources available. Once such actions have been taken this plan can be amended to include forecasts for future decarbonisation works.

5. CONSULTATION

The annual update of the HRA Business Plan has been developed in consultation with the Director of Environment & Communities, Interim Head of Housing and Interim Group Head of Finance & s151 Officer

6. OPTIONS / ALTERNATIVES CONSIDERED

None

7. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE/SECTION 151 OFFICER

The HRA business plan is a model and as such differs from the budget in some which has to follow proper accounting principles, with statutory override where required. The assumptions behind the HRA Business Plan reflect those assumed in the budget where possible and have been subject to robust challenge. However, there remains significant risk in relation to additional growth pressures (4.3) and I would recommend a refresh during 2023/24 to ensure that the plan stays on track

The budget report will provide members with the projected budget for 2023/24 and will make recommendations in relation to the minimum balance for the HRA

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The update identifies challenges and requires action to ensure a sustainable future. There is a significant risk to the HRA if those actions are not successfully implemented.

Risk	Likelihood	Impact	Risk Factor	Mitigation
Risk of incorrect assumptions	4	5	20	Assumptions are subject to change, as economic factors and the authority's situation continue to fluctuate. The authority should review its projections as circumstances change to enable it to identify, evaluate and respond to risks at an early stage.
Risk of additional spending pressures	4	5	20	Close monitoring of monthly spend especially repairs and void costs with plans for in year cost reductions if necessary
Risk of cost of reactive repairs rising in the short term as a result of our previous lack of investment in this area	4	4	16	Work is underway to establish a more competitive way to procure non-routine work. Also our planned average investment per property is £1341 which is consistent with, or slightly above, the average.

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BACKGROUND DOCUMENTS*:*