Arun District Council

REPORT TO:	**Housing and Wellbeing Committee – 4 February 2025**
SUBJECT:	**Housing Revenue Account Business Plan Update**
LEAD OFFICER:	**Richard Tomkinson – Group Head of Housing, Wellbeing and Communities**
LEAD MEMBER:	Councillor Carol Birch – Chair of Housing and Wellbeing Committee
WARDS:	**All**

CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:

Delivering the right homes in the right places by:

- Ensuring the existing housing stock in the district (council owned) is maintained to a high standard

The HRA Business Plan underpins the sustainable delivery of effective landlord services; ensuring that tenants homes are safe, well maintained and that investment and service delivery is economically viable.

DIRECTORATE POLICY CONTEXT:

The HRA Business Plan is a key facet in achieving Priority 7 of our Housing Strategy 2024-29, which commits to ensuring that existing housing stock is maintained to a high standard.

FINANCIAL SUMMARY:

A Financial summary of this report notes that:

- Peak debt will be £219.127M due to funding additional major works, to bring stock investment up to realistic levels and inclusion of Decarbonisation works of £25,000 per property by 2050 (not previously incorporated into previous iterations of the Business Plan submitted to Committee).
- Peak debt will occur at the end of projections indicating a potential exposure to long term interest rate risks. Interest rate cover (a key HRA Financial performance indicator) drops below minimum levels in 2044/45.
- The Business Plan assumes efficiency improvements and a medium-term programme of cost reductions between 2026/27 and 2030/31. Under this programme the authority would make cashable efficiency gains of 2% of its revenue budgets for general management and repairs & maintenance in each year.

1 PURPOSE OF REPORT

1.1 This report provides an update on the HRA Business Plan projections. The HRA Business Plan forecasts income, expenditure, investment and borrowing requirements in respect of the council's housing stock over a 30-year period.

1.2 It is essential to regularly review and refresh the HRA Business Plan to ensure accuracy of underlying assumptions and continued viability. This update has been produced through detailed collaboration between Housing, Wellbeing & Communities, Finance and Housing Finance Associates, the council's retained housing finance consultants, utilising up to date income, expenditure and investment data, along with wider sector comparative data to create a set of realistic assumptions which impact over the life of the Business Plan.

2 RECOMMENDATIONS

2.1 It is recommended that the Committee makes observations on and notes this report.

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 best use of available resources.

3.2 This update report highlights that the actions taken during 2024-25, coupled with increased rental income have been successful in turning around years of overspend and will return the HRA to minimum balances by 2026-27 with the balance then being maintained throughout the life of the plan.

3.3 In order to deliver capital projections detailed within the report, the council will need to borrow at increased levels. A medium-term plan to improve the financial position of the HRA, will be developed, which builds on the assumptions for cost savings that are already built into the baseline.

4 DETAIL

4.1 Baseline Position and Assumptions

4.1.1 The baseline scenario draws on the following information sources:

- Projected 2024/25 revenue outturn for the HRA and draft revenue budgets for 2025/26.
- Draft medium-term capital HRA budgets for 2024/25 to 2029/30.
- Information from a previous stock condition survey relating to long term stock investment needs from 2030/31.
- The new build programme under development by the council.

4.1.2 In addition, the baseline scenario makes the following key assumptions

- An allowance for additional major works, to bring stock investment up to representative levels while the authority updates its stock condition survey.
- Decarbonisation works of £25,000 per property by 2050.
- A substantial medium-term programme for reducing the costs of housing management and repairs by 2030/31.

- Retained Right to Buy (RTB) capital receipts are utilised to pay for new dwellings where they are developed by the council or used to secure nomination rights from housing associations.
- Rent loss from voids and bad debts is in line with the draft HRA budgets.

4.1.3 Inflation projections reflect the Bank of England Monetary Policy Report published in November 2024, plus long-term government targets for CPI.

4.1.4 The following assumptions have been made in respect of rent increases:

- For 2025/26 we have assumed the rent increase is 2.7%. This is the maximum rent increase permitted for existing general needs tenants under the Rent Standard and the government's policy statement on rents for social housing.
- From 2026/27 to 2030/31 we have assumed rent increases of CPI +1%. This reflects the current government consultation on future social rent policy, which was published following the October Budget.
- For 2031/32 onwards we made the prudent assumption that rents will increase at CPI.

4.1.5 The baseline scenario assumes:

- A £2M minimum balance on the HRA, updated each year by inflation.
- The projections assume 10 sales a year in 2024/25 and 2025/26, following an increase in demand after the October budget. From 2026/27 onwards we have assumed seven sales per annum.
- All receipts from the disposal of properties under the right to buy are made available to part-finance the HRA capital programme or to repay debt.

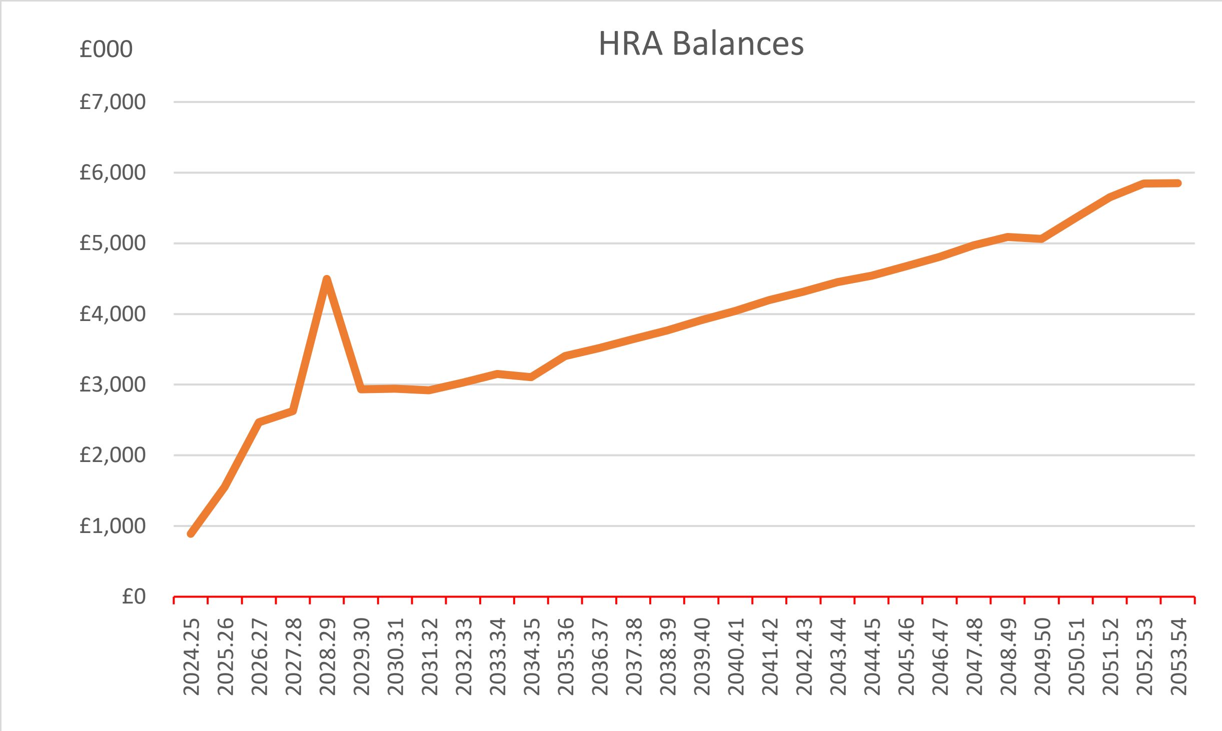
4.1.6 For the purposes of showing the affordability and sustainability of spending decisions, the forecast assumes that the authority would prioritise repayment of debt, when affordable.

4.1.7 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 any circumstances that increase net costs to the authority would impact on the position of its HRA adversely. For this reason, we recommend 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.

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

4.2 Baseline – Revenue Forecast

4.2.1 The chart below shows the council's ability to maintain a minimum level of balances during the 30 year period covered by the forecast:



4.2.2 In this chart the orange line forecasts the accumulated balance at the end of each year. It shows that the authority is able to maintain at least a minimum level of balances throughout the 30 year period. However, the HRA starts to struggle to maintain this level of balances in the final year.

4.2.3 It is important to note that the council has experienced significant overspending against revenue budgets for several years. This resulted in reserves being severely depleted, requiring immediate in-year actions to address the potential of balances falling into deficit. The previous update provided to this Committee in January 2023 showed HRA balances falling below minimum levels (£2M) from 2023/24 to 2029/30. Actions taking during the current financial year, coupled with increased rental income see a return to minimum balance by 2026/27, with minimum balance then being maintained throughout the life of the plan.

4.2.4 A key factor will be ensuring operating margins are increased by reducing operational costs and repairs and maintenance costs within the HRA. A programme of 2% savings has been built into the Business Plan over the next 5 years and detailed in table 1 below:

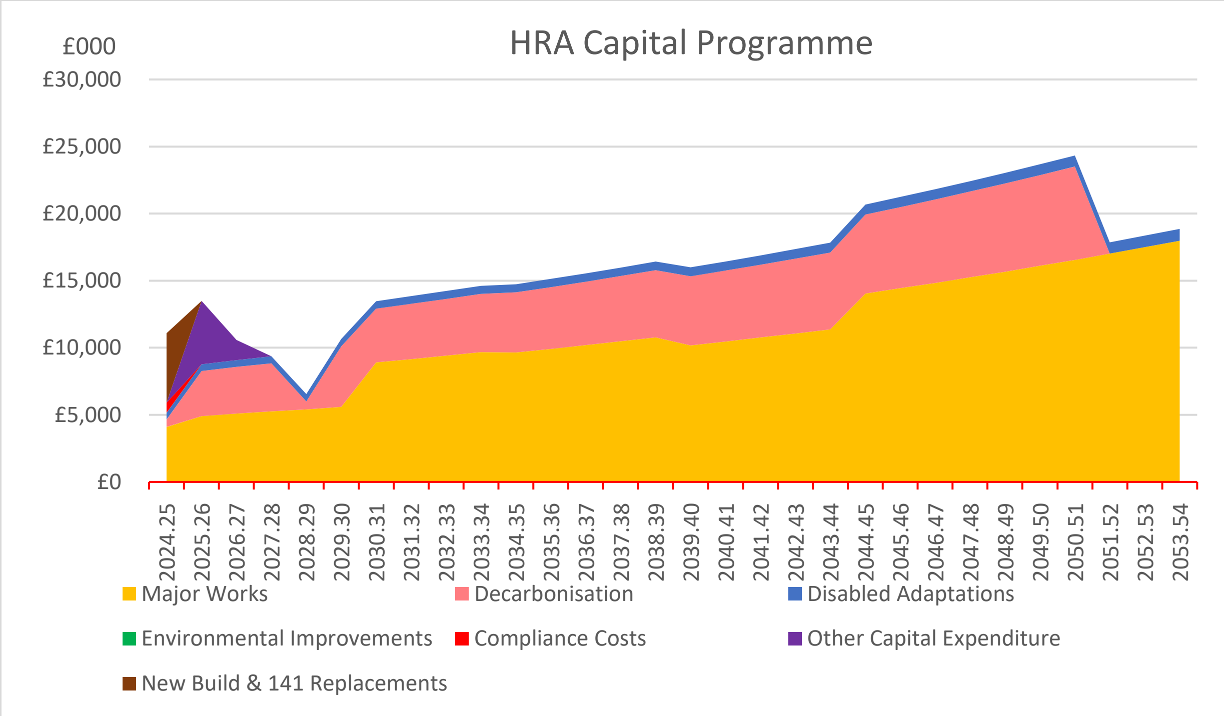
	25/26	**26/27**	**27/28**	**28/29**	**29/30**	**30/31**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Supervision & Management	7,072	7,266	7,430	7,560	7,711	7,865
Efficiency savings–		-145	-297	-454	-617	-787
Net Supervision and Management Target	**7,072**	**7,121**	**7,133**	**7,106**	**7,094**	**7,079**
Repairs & Maintenance	6,717	6,931	7,142	7,323	7,528	7,738
Efficiency savings		-139	-288	-444	-609	-784
Net Repairs and Maintenance Targets	**6,717**	**6,792**	**6,854**	**6,880**	**6,918**	**6,953**

4.2.5 Work is already being undertaken to reduce management and maintenance costs with the implementation of new ways of working, the restructuring of housing services team, and the in-sourcing of the repairs and maintenance team.

4.2.6 Any programme of proposed savings will be closely monitored by Finance in partnership with Housing to ensure they are delivered. Further progress on savings will be reported to Housing and Wellbeing as part of the ongoing budget monitoring and reporting cycle of the council.

4.3 Baseline Capital Programme

4.3.1 The next chart highlights the baseline projects for 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:

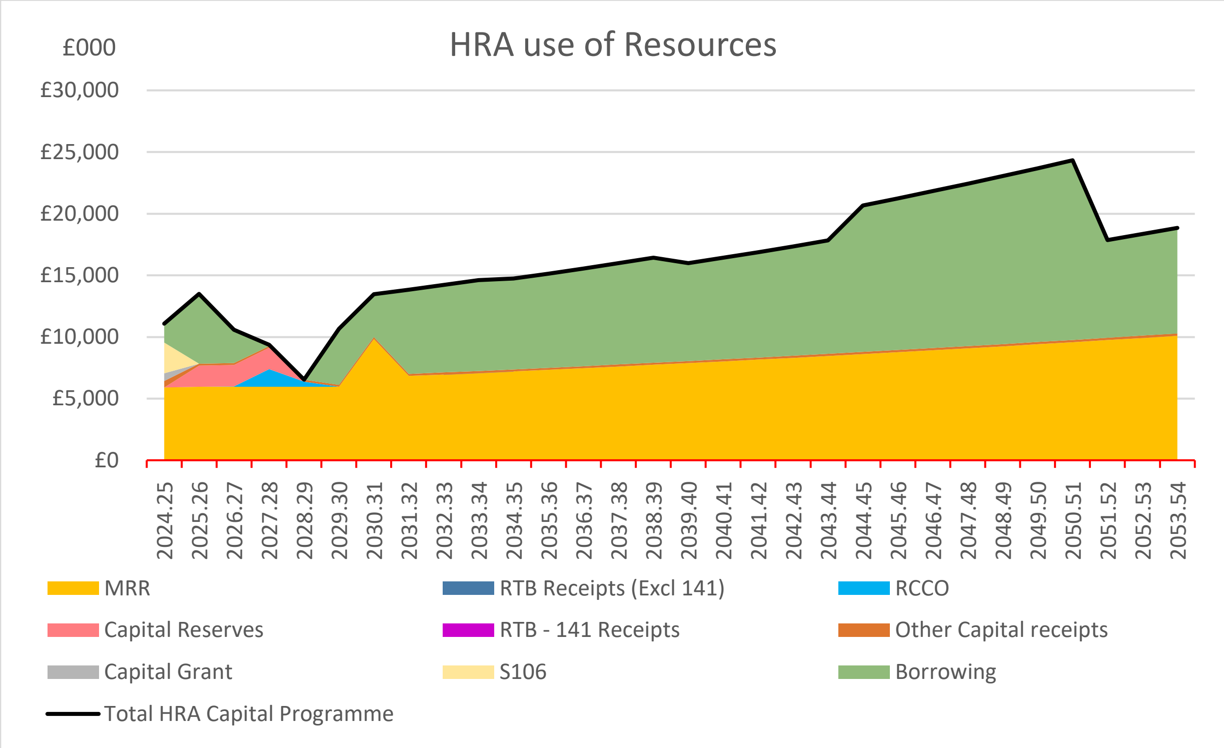


4.3.2 The bulk of the capital programme relates to investment in existing homes, which is shown by the amber area in the above chart. The projections also make a substantial allowance for decarbonising the existing stock, which is shown by the red area.

4.3.3 The baseline position allows for completion of the existing development programme in 2024/25, which appears as the brown area of the graph. Presently, the projection shows the authority's existing commitment. This will be extended to include additional units, as appropriate sites and viable schemes are identified. The chart also includes a programme for investing £6M in the authority's sheltered stock during 2025/26 and 2026/27, which forms the purple area.

4.4 Baseline Capital Financing

4.4.1 The next chart shows the capital resources that the authority needs to utilise to finance this capital programme:

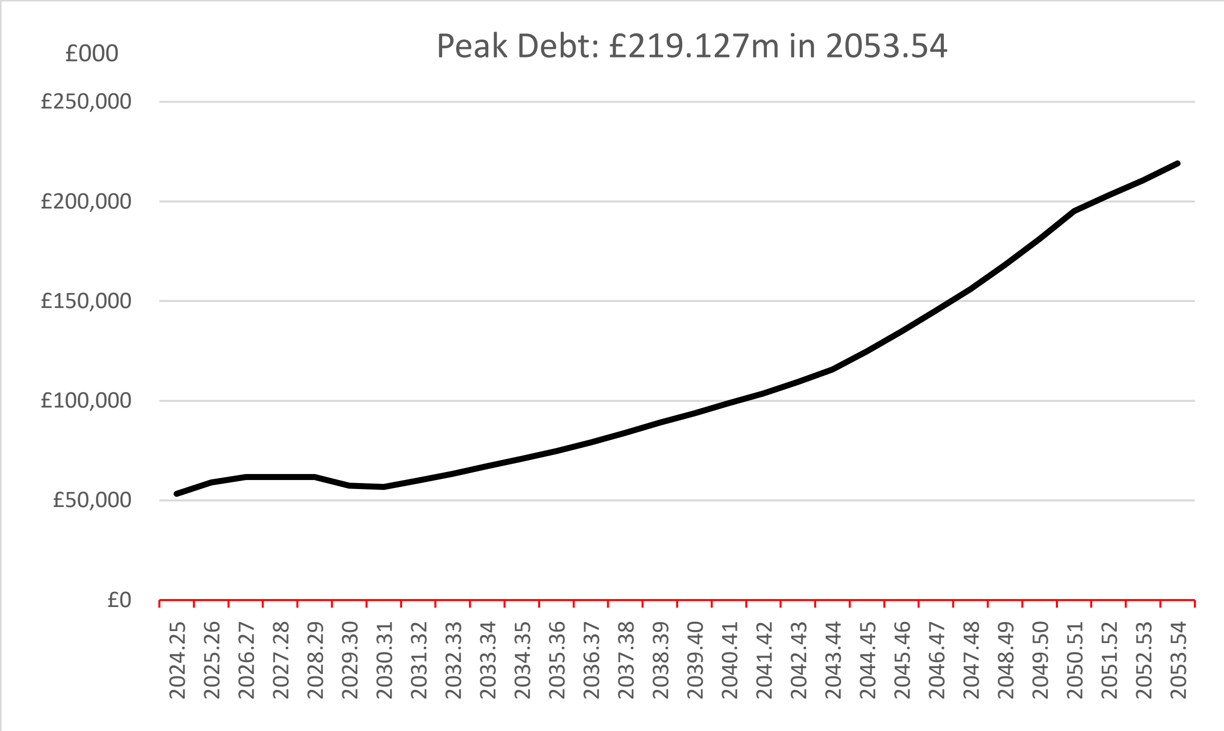


4.4.2 In this chart the amber area shows the major repairs reserve (MRR), which is generated internally by the HRA. This is topped up by revenue contributions from the HRA (blue area) in 2027/28 and 2028/29. The red area represents Warm Homes funding that is anticipated from government. The programme also allows for some use of S106 (yellow area) and grant funding (grey area) in 2024/25.

4.4.3 The chart shows that the council needs to borrow (green area) to fund large parts of the capital programme, which it is currently unable to finance from other sources.

4.5 Baseline Debt

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

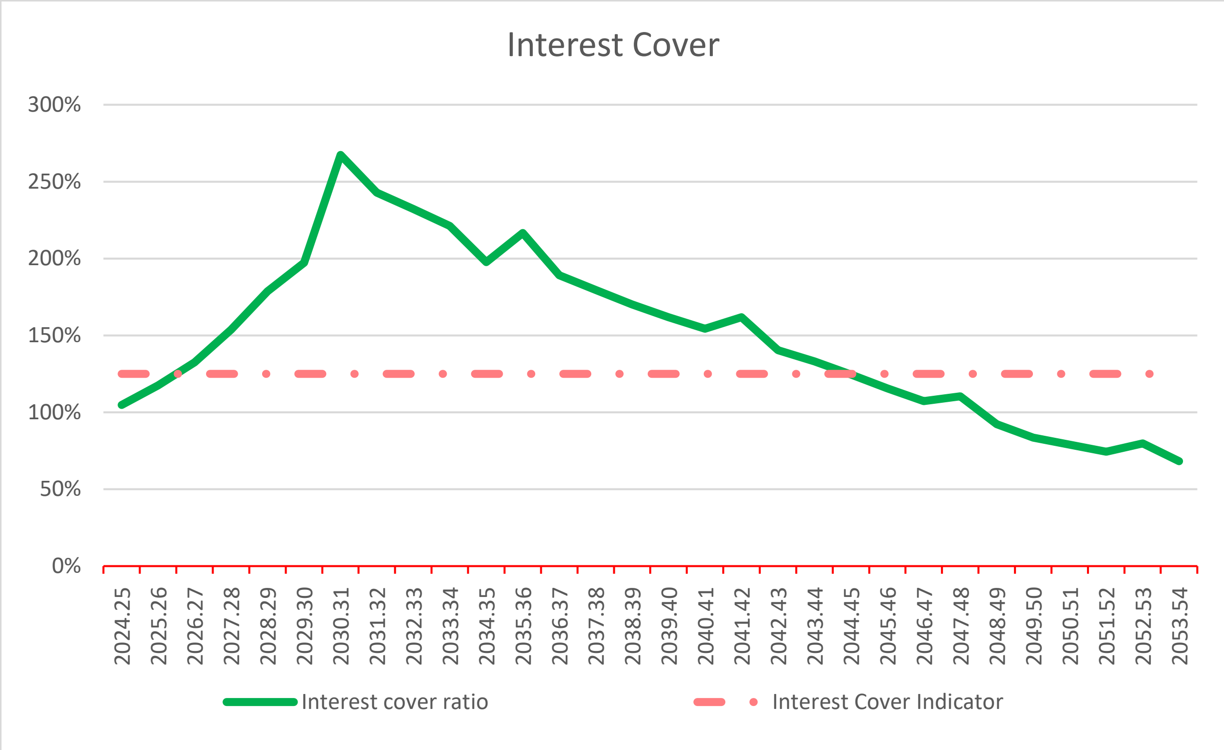


4.5.2 The level of investment required in the council's stock means that the authority needs to borrow to deliver its capital programme throughout the 30 year period. Debt continues to rise throughout the projections and reaches a peak of £219.127m in the final year. The council needs to borrow more to finance its capital programme than it can afford to repay, which causes debt to increase. This, and the fact that debt reaches its peak and continues to rise at the end of the projections, means that the council is exposed to potential fluctuations in the cost of borrowing.

4.5.3 It should be noted that this debt level is as a direct consequence of allowance for additional major works, to bring stock investment up to representative levels while the authority updates its stock condition survey and for Decarbonisation works of £25,000 per property by 2050 (not previously incorporated into Business Plan updates provided to Committee). The Housing Service is currently in the process of completing a census stock condition survey, this means that future updates of the business plan will reflect actual investment need rather than assumed representative levels (based on sector averages). In the coming years, it will be important to take action to minimise the use of borrowing to help contain the increase in debt levels.

4.6 Baseline Affordability

4.6.1 The council's need to borrow at higher levels to deliver its capital projections incurs additional borrowing costs, in the form of interest charges. Its ability to pay for these charges is a key indicator of the financial sustainability of the authority's projections. The chart below uses interest cover projections to illustrate the affordability of the implied programme:



4.6.2 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 go up, interest cover performance drops and when income goes up, interest cover performance increases. The green line on this chat shows the interest cover performance of the HRA over time. The dashed pink line indicates a minimum performance level, where the HRA can pay the cost of its interest charges, plus a further 25%. When performance is below the pink line, the authority should take action as soon as possible to reduce costs or increase income.

4.6.3 Improvements in the net surplus generated by the HRA during 2024-25 and over the coming years mean that interest cover performance improves over the medium term. It should be noted that we are only able to consider increased investment based on representative levels as a direct result of the actions taken to prioritise restoring the HRA to a sustainable financial position and avoiding the very real threat of the HRA falling into an unlawful deficit position. These actions are supported by above inflation rent increases that have been assumed until 2030/31, as well as a medium-term revenue cost reduction programme that has been assumed between 2026/27 and 2030/31.

4.6.4 However, interest cover does start to drop as rising debt incurs ever increasing interest charges. As a result, interest cover drops below the minimum indicator in 2044/45 and continues to decline to unacceptable levels. It is this position that forces HRA balances to drop below the minimum level in the final year. If interest cover were to continue this path the account would fall into deficit. It is therefore vital that further work is undertaken to improve operating margins (increase income and reduce costs) to ensure continued viability.

4.7 Baseline Summary

4.7.1 The baseline position for the HRA reflects the best available information on projected resources and need to spend on council housing for the foreseeable future. The projections show that the authority must rely heavily on borrowing to deliver the required level of capital investment in its stock. It needs a strategy and medium-term plan for reducing this reliance on borrowing to improve the financial position of the HRA.

4.7.2 The baseline projections indicate that the investment assumed is broadly affordable until 2049/50, when rising debt causes interest cover to drop below a minimum level. To minimise associated risks, the council needs a medium-term plan to improve the financial position of the HRA, which builds on the assumptions for cost savings that are already built into the baseline.

4.7.3 The council could 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 by generating capital receipts from market sales or the disposal of other council assets, or by accessing external funding streams).

4.7.4 Other actions the council can take to improve the position might include making cost savings or generating additional income (for example from the recovery of service costs or by making use of rent flexibility).

4.7.5 Any additional pressures that are not accompanied by funding would impact negatively on the financial capacity of the HRA, unless the authority is able to take compensating actions.

4.7.6 The HRA needs to operate as a business and so, as a general rule, the council should seek to minimise operating costs for the HRA, while maximising income. This would help to make more resources available to service the higher level of borrowing that is required.

5 CONSULTATION

5.1 This update has been developed in collaboration between the Group Head of Housing, Wellbeing & Communities, HRA Project Accountant and Housing Finance Associates, the council’s retained housing finance consultants and in consultation with the Corporate Leadership Team.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1 This report presents the current baseline position, based on the assumptions detailed in 4.1 of the report. Options and alternatives will be considered throughout the life of the Business Plan and potential impact will be presented to Committee through annual update.

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

7.1 The 30 Year HRA business plan has been updated to include the latest HRA budget forecasts as at P7, and the proposed 25/26 HRA Revenue budget and the 25/26 proposed HRA Capital programme.

7.2 It should be noted there have been several changes to the business plan from the last submission to Housing and Wellbeing committee on the 25 January 2023. These are detailed below.

7.3 As detailed in 4.5.12, Peak debt has increased from the £66.491M (reported on 25 January 2023) to £219.127m in 2053.54. This is due to several factors including:

- Inclusion of a substantial allowance for decarbonisation works and the uncertainty around funding availability for decarbonisation.
- Substantial post-covid inflationary pressures (particularly in relation to building costs).
- Additional Social Housing regulatory requirements.
- Extension of CPI +1% rent increases to 2030/31.
- Higher interest rates.

7.4 Interest rate cover (a key HRA performance indicator) drops below minimum levels in 2044/45 as detailed in 4.6. The council will need to review this position to ensure there is sufficient cover to interest rate exposure through either reducing operating costs further, increasing revenue or reducing the level of borrowing to cover capital spend.

7.5 It should be further noted that target savings and efficiencies have been built into the current business plan and detailed in 4.2.5 – 4.2.6. Finance will be working closely with Housing to ensure these are identified, delivered and reported to Housing and Wellbeing Committee through the regular budget monitoring reporting cycle.

7.6 Current HRA operating margins are currently at 11% and based on national averages should be in the region of 20%. Whilst the efficiencies detailed in 4.2.5 -4.2.6 will help increase operating margins, this must be reviewed to ensure margins are maintained given the pressures on costs and covering interest rates detailed in 4.6.

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8. RISK ASSESSMENT CONSIDERATIONS

8.1 Balance of the HRA features prominently on the Corporate Risk Register. The actions taken during 2024/25 have mitigated the significant risk of balances falling into unlawful deficit, the Group head of Housing, Wellbeing & Communities and the Group Head of Finance/Section 151 Officer will continue to review risk and implement mitigations, as required.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1 The Localism Act 2011 reformed the way that council housing is financed in England and Wales. The national HRA subsidy system ended in April 2012 and was replaced with self-financing.

9.2 Under the Localism Act 2011, the Council has been required to be self-financing in relation to its housing stock.

9.3 Expenditure and income relating to property and income listed in section 74 of the Local Government and Housing Act 1989 which includes housing held under Part II of the Housing Act 1985 must be accounted for in the HRA. The HRA is a ring-fenced budget.

9.4 It is not a legal requirement to produce an HRA Business Plan, however, it is good practice and helps provide a good framework for long-term strategic planning.

9.5 The HRA Business Plan provides an important mechanism for ensuring that the Council's housing stock is well managed and maintained, and that investment is made to ensure the safety of residents.

9.6 The HRA should be self-funding and continuous review of the position of the HRA is required to ensure this.

10. HUMAN RESOURCES IMPACT

10.1 Housing staffing establishment and associated costs are met, in the main, through income generated by the HRA. A strong and robust business plan demonstrates the council's ability to continue to deliver services and maintain the staffing compliment required to do so.

11. HEALTH & SAFETY IMPACT

11.1 We maintain a robust corporate approach to health and safety in respect of all elements of service delivery. Individual projects and activities will be subject to further risk assessment as they arise.

12. PROPERTY & ESTATES IMPACT

12.1 The recommendations of this report have no impact on the council's General Fund Portfolio or the delivery of Property, Estates, and Facilities functions.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1 We will continue to prioritise the needs of vulnerable residents with a specific focus on the protected characteristics under the Equality Act 2010. As new programmes and projects arise throughout the life of the HRA Business Plan, Committee will be presented with further reports to consider and approve. These reports will be accompanied with specific, relatable equalities impact assessments.

Social Value will be tailored through all contract awards to deliver against locally identified need to ensure positive and long-lasting community benefit.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1 This report details that the HRA Business Plan now includes significant investment in decarbonisation works aimed at improving the energy efficiency performance of our homes and delivering carbon reduction.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1 No impact identified at the time of reporting.

16. HUMAN RIGHTS IMPACT

16.1 No impact identified at the time of reporting.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1 No impact identified at the time of reporting.

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

Housing Revenue Account Budgets 2025/26 Report – Considered at tonight's meeting.