

**ARUN DISTRICT COUNCIL
REPORT TO AND DECISION OF CABINET
ON 11 JANUARY 2021**

SUBJECT: Housing Revenue Account Business Plan Update 2020

REPORT AUTHOR: Satnam Kaur, Group Head of Residential Services

DATE: 21 December 2021

EXTN: 37718

PORTFOLIO AREA: Residential Services

EXECUTIVE SUMMARY:

This report provides the annual update on the baseline position for the Housing Revenue Account Business Plan (HRABP) projections.

The HRABP forecasts income, expenditure, investment and borrowing in respect of Council housing over a 30 year period.

The update has been produced by our retained expert consultant; Housing Finance Associates and is based entirely on inputs that have been provided by the Council.

RECOMMENDATIONS:

Cabinet is asked to:

- Note the updated Housing Revenue Account Business Plan 2020/21

1.0 BACKGROUND:

1.1 The HRABP 2017-2027 was approved by Full Council in September 2017 and was last updated in February 2019. The primary objectives of the plan are:

1.1.1 Increasing the housing stock

1.1.2 Ensuring housing assets are fit for purpose

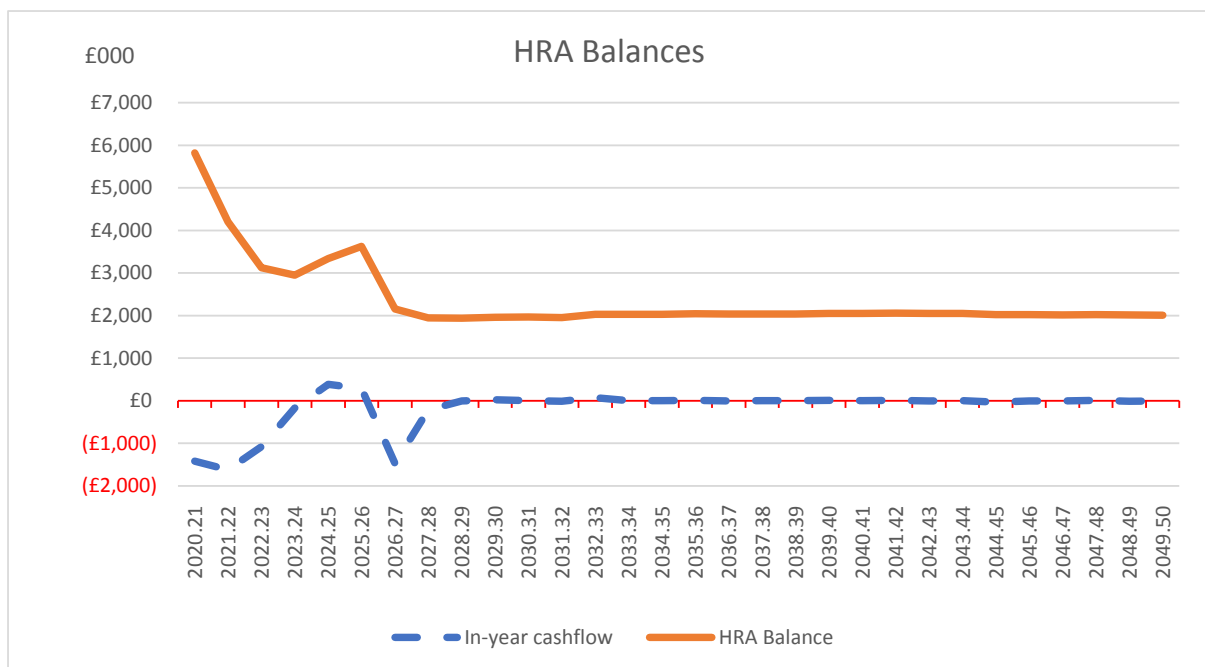
1.1.3 Maximising income and making the best use of available resources

1.2 The plan was last updated in 2019 and this report sets out the annual update. For the purposes of showing the affordability and sustainability of spending decisions, the forecast assumes that we repay the debt as quickly as possible. However, in reality the actual approach we take will be determined by the conditions that apply when loans are taken out by taking a risk-based approach.

1.3 Members should note that this iteration of the plan does not allow for growth pressures or additional costs associated with the delivery of carbon neutral homes by 2050. These will be included in future updates.

1.4 Baseline Revenue Forecast

1.4.1 The chart below shows our ability to maintain a minimum level of balances (£2 million) during the 30 year period covered by the forecast

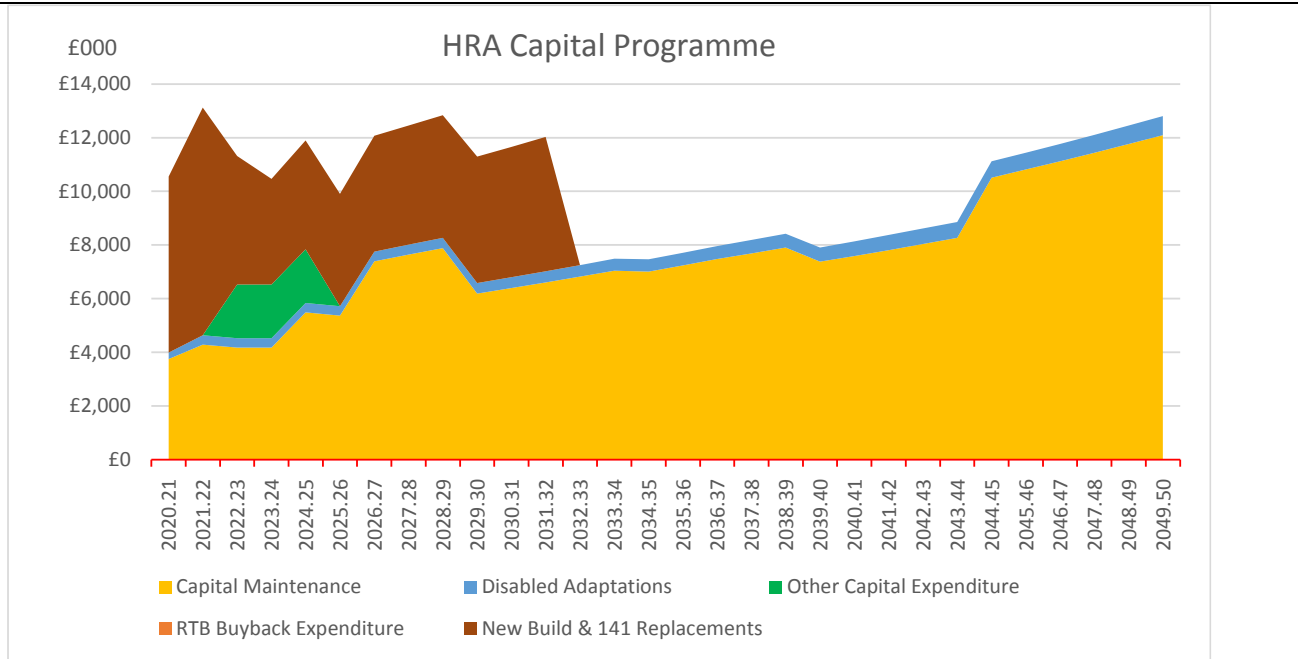


1.4.2 In this chart the blue line represents the in-year movement in HRA balances, while the orange line forecasts the accumulated balance at the end of each year.

1.4.3 We can broadly maintain our minimum HRA Balance of £2.000m throughout the forecast. During the first six years the Council utilises its balances above the minimum level to help repay debt and finance its HRA capital programme, and this reduces balances to the minimum level from year 7. Any capacity the authority has for generating additional balances during the forecast is used to finance the capital programme or to repay debt, which means that balances continue to be maintained at the minimum level for most of the rest of the planning period.

1.5 Base line capital programme

1.5.1 The next chart for the baseline shows our ability to deliver the HRA capital programme within the available resources. This chart shows the capital expenditure required each year, identifying the main types of expenditure separately:

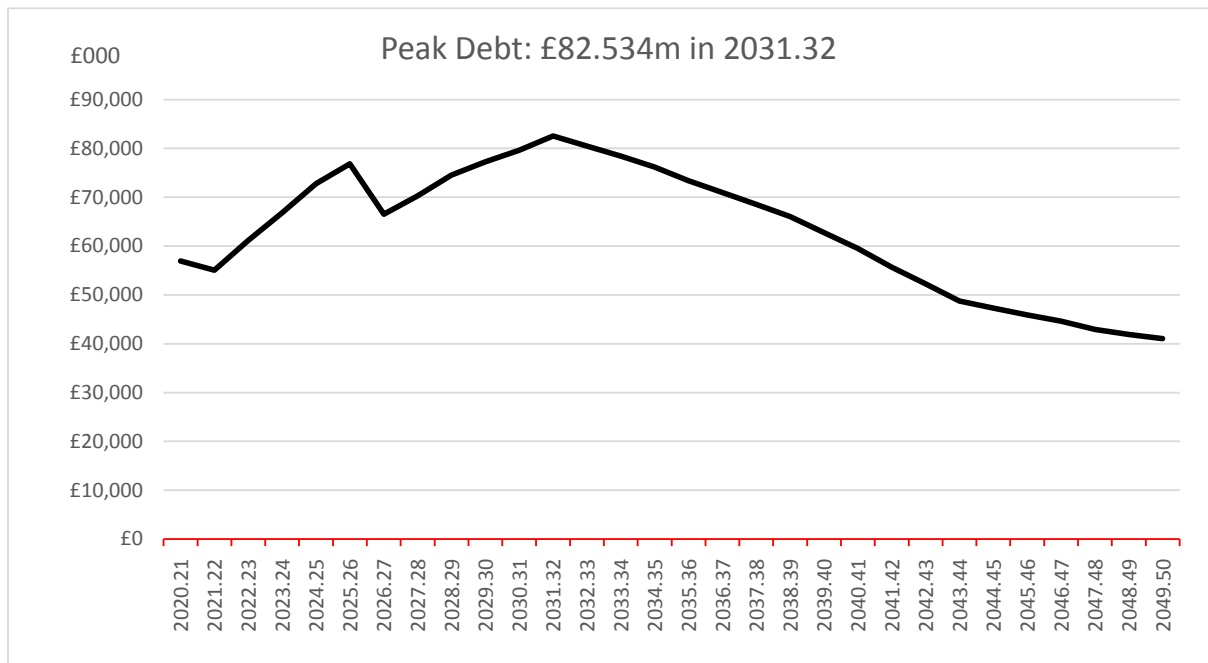


1.5.2 The baseline position allows for the addition of 230 properties between 2020/21 and 2031/32. Expenditure on these units shows as the brown area of the graph. It also includes a three-year programme for investing £6.000m in its sheltered stock, which forms the main part of the green area.

1.5.3 The Authority can finance this capital programme from the resources that are at its disposal. This means that the baseline levels of capital investment are affordable and fully financed throughout the planning period.

1.6 Base line debt profile

1.6.1 The next chart forecasts movements in the level of HRA debt during the planning period.



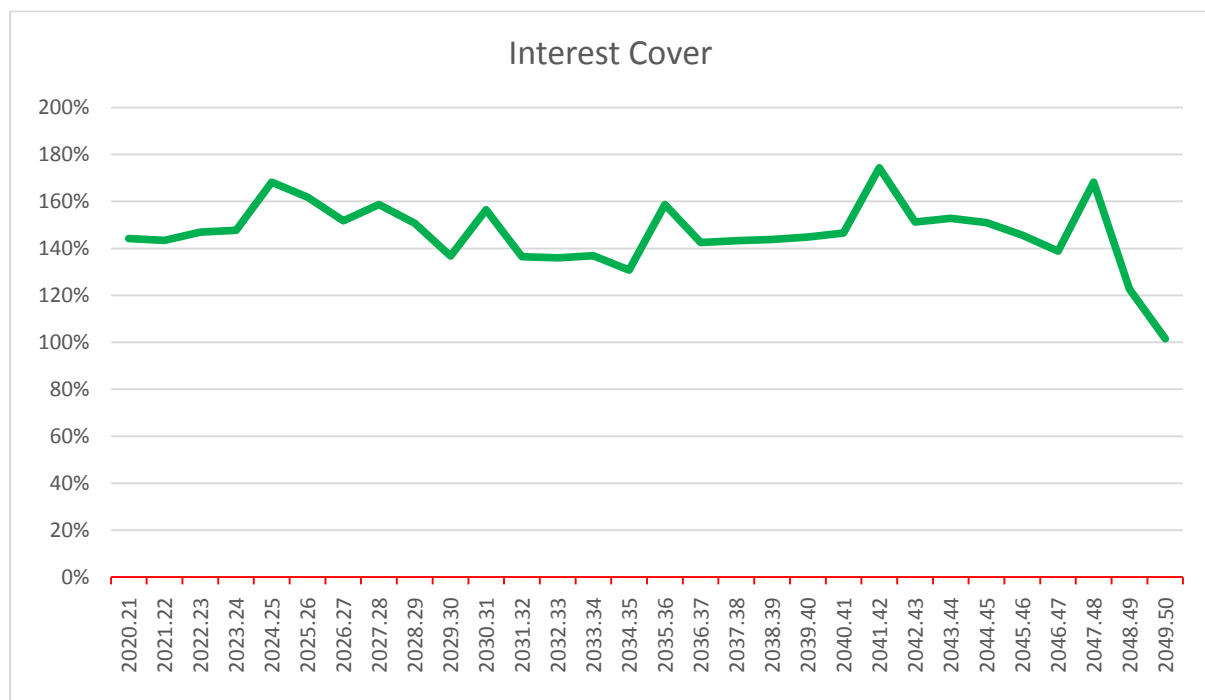
1.6.2 The resources generated by the baseline position mean that we can start to repay debt after year 2031/32. Debt peaks at £82.534m in 2031/32, but the level of investment in new stock means we have to borrow at well above the level currently indicated by our treasury management strategy statement.

1.6.3 By the end of the 30 year period debt drops from its peak level to £41.076m. Of this, £8.860m relates to existing loans, which are not due to be repaid until after 30 years, £8.045m relates to existing internal borrowing, and £24.171m is from additional borrowing undertaken to deliver the baseline capital programme.

1.6.4 On these assumptions we are able to repay most of the borrowing required over a reasonable period, suggesting that the baseline programme is affordable and sustainable.

1.7 Baseline – affordability

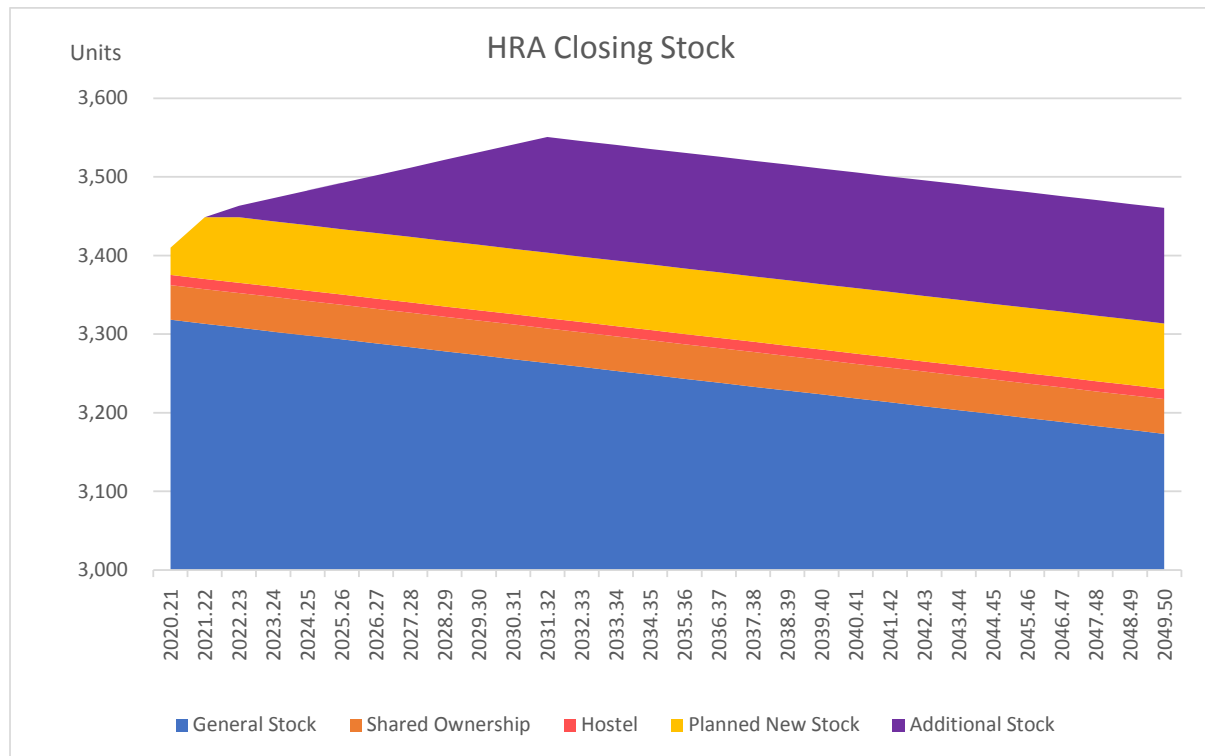
1.7.1 The ability of the authority to repay debt within a reasonable timescale, as covered in the previous section, is a key indicator of the long-term affordability of our projections. Alongside this we have also considered the level of interest cover provided by the operating surplus on the HRA, which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



1.7.2 While we are able to utilise HRA surpluses to repay debt, the level of those operating surpluses remains within 102% to 174% of the projected charges for interest. We would expect to see the rate of cover increase towards the end of the forecast as debt is repaid, but in this case the ratio is at its lowest in the final year of the planning period – which is also the year that debt reaches its lowest point. To ensure affordability this ratio should be maintained at 125% or above.

1.8 Base Line Council Housing Stock Numbers

1.8.1 The final baseline chart shows the expected movement in stock numbers, based on current assumptions for sales, plus the development or acquisition of new units:



1.8.2 The projections allow for gains in the number of units from the assumed programme of development and acquisitions, peaking at 3,551 units in 2031/32. Thereafter the effects of continuing sales of council homes under the right to buy reduce stock levels back to 3,461 homes after 30 years.

1.9 Summary

1.9.1 The baseline position for the HRA reflects the best available information on the need to spend on council housing for the foreseeable future. The level of investment required in the existing stock of council homes, along with the Council's aspirations to develop and build new homes while regenerating sheltered stock, means that we will need to take out additional borrowing to help finance the work required. Borrowing at the levels shown in this report means that we can meet existing plans for investment and new build, while increasing stock over the medium term

1.9.2 The baseline projections indicate that the investment assumed is broadly affordable and sustainable. However, they also assume that the underlying cost base will increase in real terms. This presents a potential risk for the Council to address over the long term, to ensure that its plans continue to be affordable and sustainable.

1.9.3 There may be scope for the authority to utilise spare funding capacity to increase stock numbers and investment in council housing further, beyond the levels assumed in the baseline position.

| | | |
|--|----------------------------|-----------|
| 1.9.4 The authority 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 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). It could also improve the financial position by ensuring that the Council minimises operating costs for the HRA, while maximising income. | | |
| 2.0 PROPOSAL(S): | | |
| 2.1 Members note the updated HRABP 2020 | | |
| 3.0 OPTIONS: | | |
| 3.1 Members note the updated HRABP 2020 | | |
| 4.0 CONSULTATION: | | |
| 4.1 The new plan has been developed in consultation with the Director of Services, Group Head of Residential Services, Group Head of Corporate Support and the Cabinet Member for Residential Services. | | |
| Has consultation been undertaken with: | YES | NO |
| Relevant Town/Parish Council | | NO |
| Relevant District Ward Councillors | | NO |
| Other groups/persons (please specify) | YES (please see 4.1 above) | |
| 5.0 ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below) | YES | NO |
| Financial | YES | |
| Legal | | NO |
| Human Rights/Equality Impact Assessment | | NO |
| Community Safety including Section 17 of Crime & Disorder Act | | NO |
| Sustainability | | NO |
| Asset Management/Property/Land | | NO |
| Technology | | NO |
| Other (please explain) | | |
| 6.0 IMPLICATIONS: | | |

6.1 The capital expenditure contained in the HRABP update is based on the proposed budget for 2021/22 and the indicative budget for the following two years, which have been assessed for affordability. Future years budgets will continue to be assessed for affordability in light of changing circumstances before approval by Full Council as part of the annual budget setting process.

6.1.1 Members should note that this iteration of the plan does not allow for growth pressures or additional costs associated with the delivery of carbon neutral homes by 2050 and any additional compliance costs. These will be included in future updates on our progress against the plan and any revisions required.

7.0 REASON FOR THE DECISION:

7.1 To ensure that the HRA is able to deliver the long-term investment requirements that have been identified through the updated HRABP plan forecast.

8.0 EFFECTIVE DATE OF THE DECISION: 20 January 2021

9.0 BACKGROUND PAPERS: None