ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF HOUSING AND WELLBEING COMMITTEE ON 2 DECEMBER 2021

SUBJECT: Annual Update Housing Revenue Account Business Plan 2021/22

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DATE:	17 November 2021
EXTN:	37718
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 stock over a 30-year period.

Regular review of the HRABP is essential to ensure short, medium, and long-term viability of the plan. The 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.

RECOMMENDATIONS:

Housing & Wellbeing Committee RECOMMEND to Full Council:

- That the annual update of the Housing Revenue Account Business Plan 2021/22 be noted.

1.0 BACKGROUND:

1.1 The Housing Revenue Account is a self-contained financial business which relies on the rental income from Council-owned homes to provide the ongoing maintenance and management resources needed to sustain the housing stock. In order to maximise investment in homes and sustain service to tenants, it is vital that operations are as efficient and effective as possible.

1.2 The HRABP 2017-2047 was approved by Full Council in September 2017. The primary objectives of the plan are to:

- Increase the housing stock

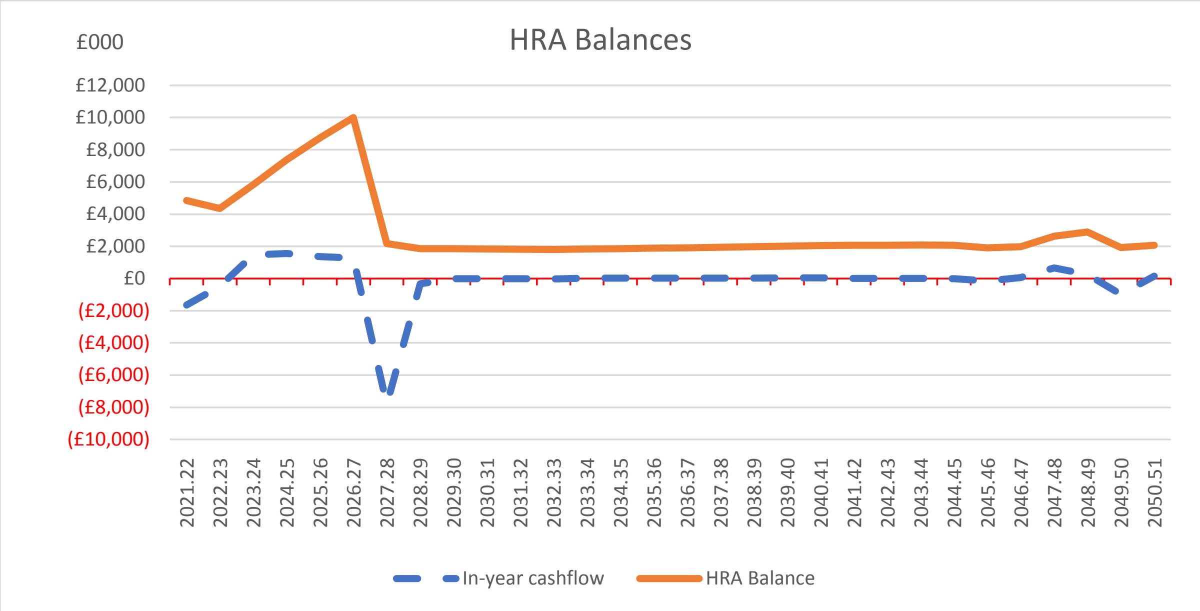
- Ensure housing assets are fit for purpose
- Maximise income and make the best use of available resources

1.3 For the purposes of showing the affordability and sustainability of spending decisions, the forecast assumes that debt is redeemed as quickly as possible. However, in reality the actual approach taken will be determined by the conditions that apply when loans are taken out by taking a risk-based approach.

1.4 Members should note that this iteration of the plan provides high level forecasts for costs associated with the delivery of carbon neutral homes by 2050. These are likely to be subject to change once more detailed analysis has been undertaken. These will be included in future updates.

1.5 **Baseline Revenue Forecast**

1.5.1 The chart below shows the Council's ability to maintain a minimum level of balances (£2 million) during the 30-year period covered by the forecast.

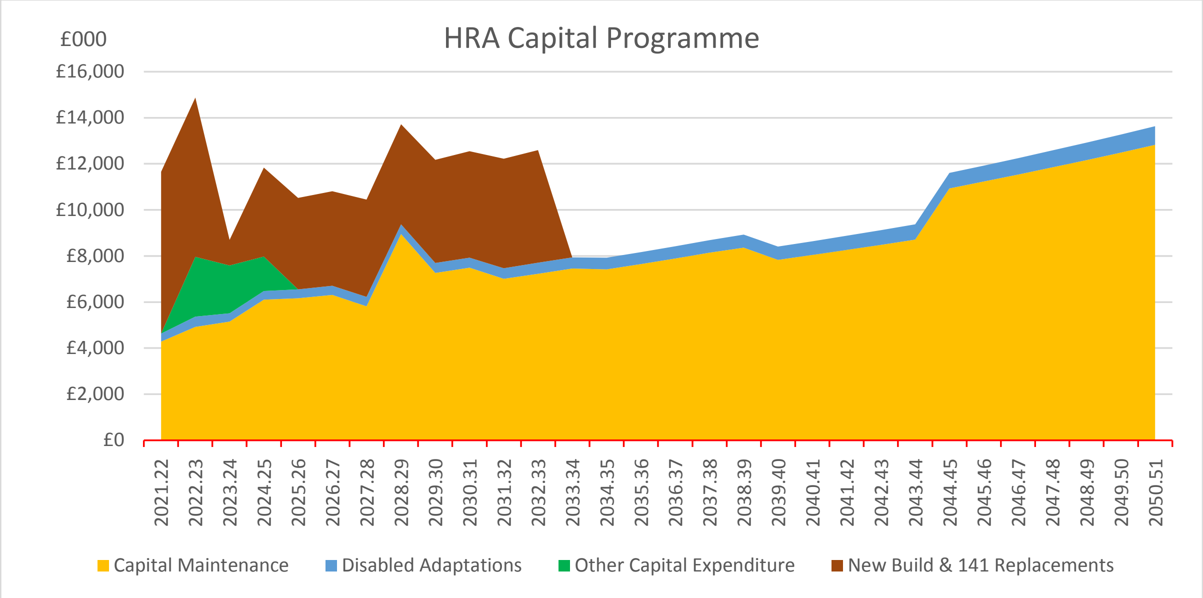


1.5.2 In this chart the blue line represents the in-year movement in HRA balances, taking into account income, expenditure and debt repayment. When the blue line is above zero, income generated is greater than expenditure resulting in an increase in balances. The orange line forecasts the accumulated balance at the end of each year.

1.5.3 The HRA minimum balance of £2m can be broadly maintained throughout the forecast. During the first six years the projections mirror medium term budgets. Thereafter the HRA utilises balances above the minimum level to help repay debt and finance the HRA capital programme, which reduces balances to the minimum level from year 7. This is the reason why the blue and orange lines drop in 2027/28. Any capacity 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 the rest of the planning period.

1.6 Base line capital programme

1.6.1 The next chart for the baseline shows the 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.

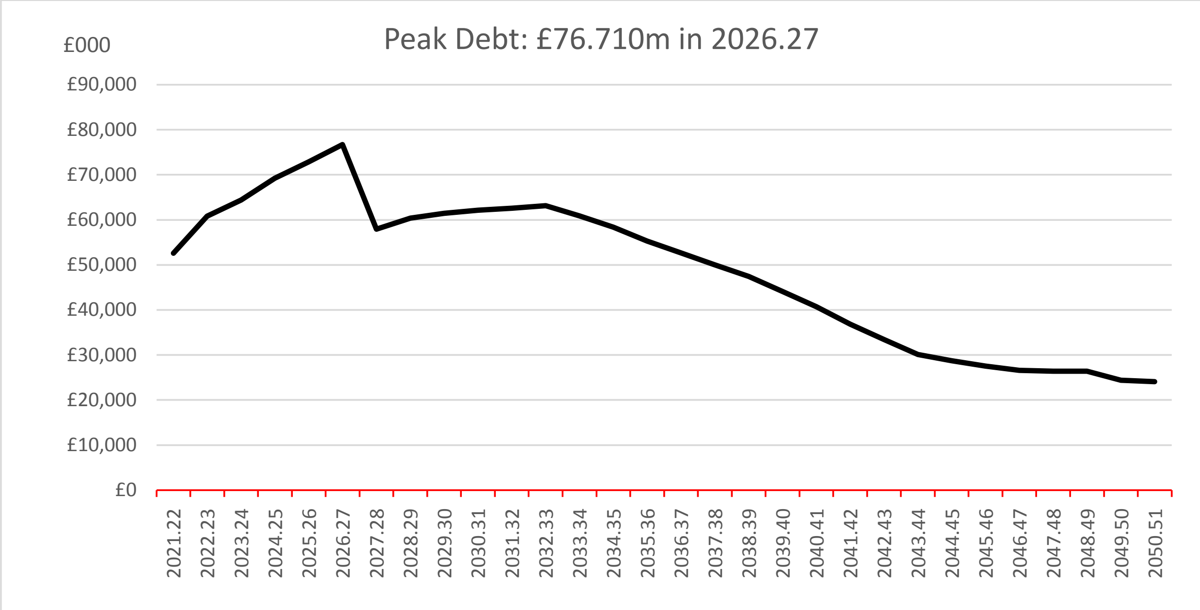


1.6.2 The baseline position allows for the addition of 207 properties between 2021/22 and 2032/33. Expenditure on these units appears as the brown area of the graph. The chart also includes a three-year programme for investing £6m in sheltered housing stock, which forms the main part of the green area.

1.6.3 This capital programme can be financed from the resources that are at the Council's disposal. This means that the baseline levels of capital investment are affordable and fully financed throughout the planning period.

1.7 Base line debt profile

1.7.1 The next chart forecasts movements in the level of HRA debt during the planning period (black line).

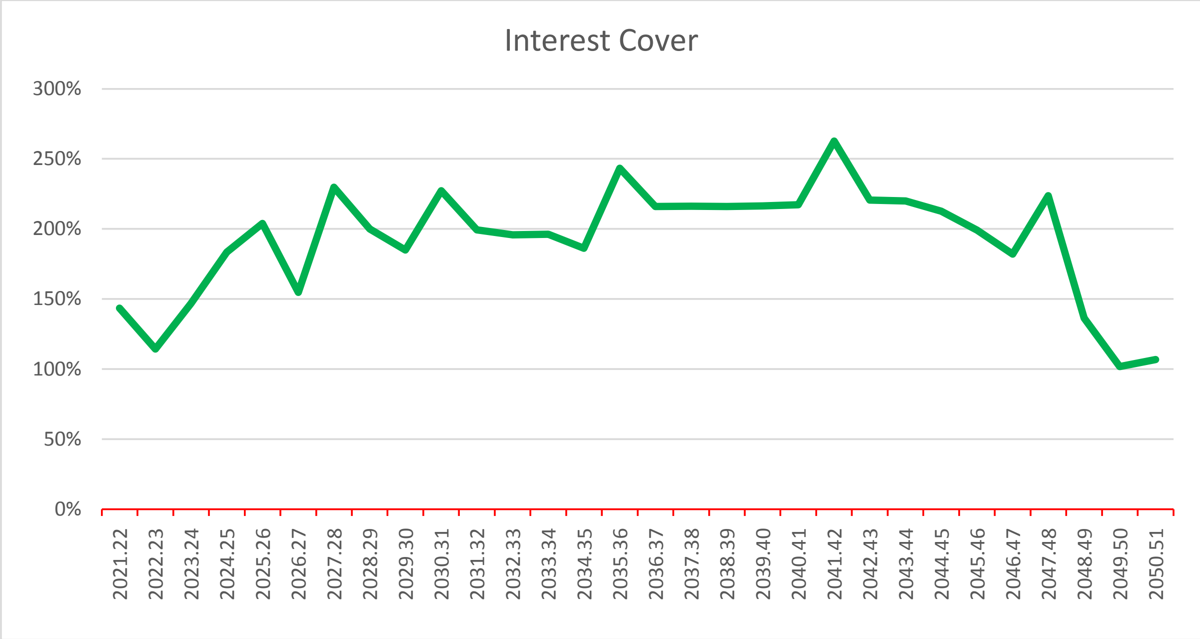


1.7.2 The resources generated by the baseline position mean that the Council can start to repay debt after year 2026/27, which coincides with the end of the Council's medium term budget period. Debt peaks at £76.710m in 2026/27, but the level of investment in new stock means borrowing will be required at well above the level currently indicated in the Council's treasury management strategy statement. By the end of the 30 year period debt drops from its peak level to £24.051m.

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

1.8 **Baseline – affordability**

1.8.1 The ability to repay debt within a reasonable timescale, as covered in the previous section, is a key indicator of the long-term affordability of the projections. Alongside this consideration has been given to the level of interest cover provided by the operating surplus on the HRA, which is shown in the chart below:

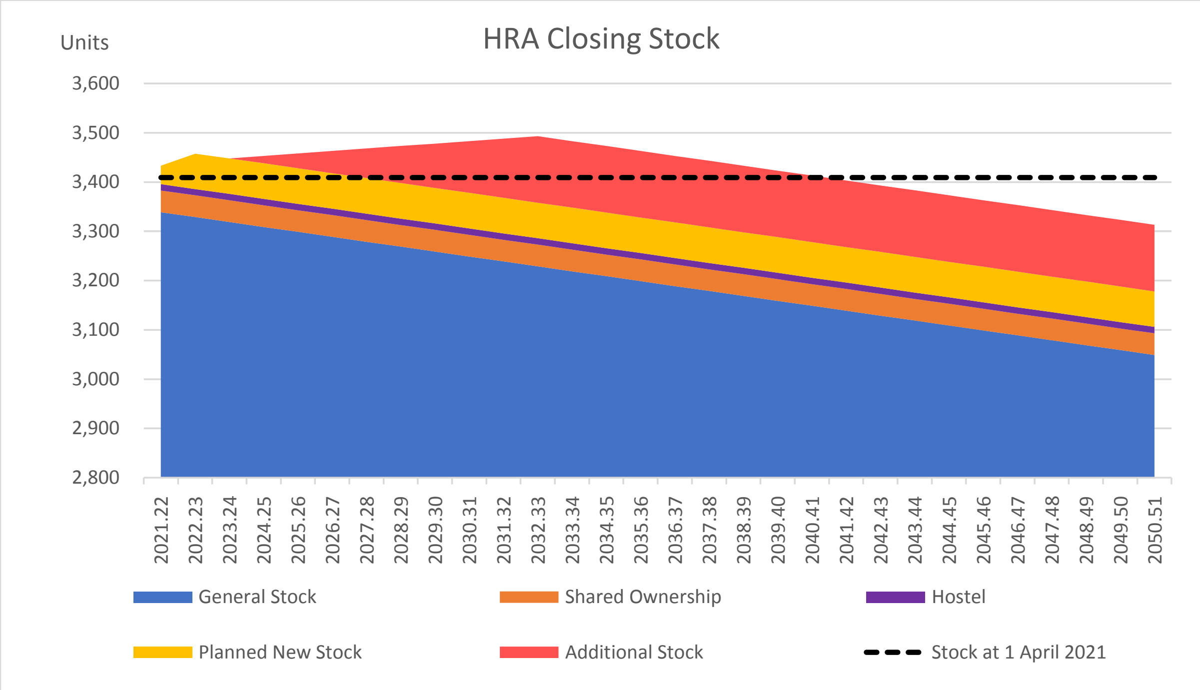


1.8.2 This chart shows how well the HRA is able to cover the cost of interest charges on debt levels from its projected operating surpluses. Interest cover of less than 100% would indicate that the HRA is unable to afford the costs of servicing the implied debt levels. To ensure affordability and leave some spare capacity for emerging pressures, this ratio should be maintained at 125% or above.

1.8.3 The HRA utilises its surpluses to repay debt during the period and the level of those operating surpluses remains within 102% to 263% of the projected charges for interest. Ideally, the rate of cover should increase towards the end of the projections as debt is repaid, but in this case the ratio is at its lowest in the last two years of the planning period – which coincides with debt reaching its lowest point. This is caused by costs rising at a faster rate than income over the long term, indicating a need for sustained financial discipline.

1.9 **Base Line Council Housing Stock Numbers**

1.9.1 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:



1.9.2 The projections allow for gains in the number of units from the assumed programme of development and acquisitions, peaking at 3,493 units in 2032/33. Thereafter the effects of continuing sales of council homes under the right to buy reduce stock levels back to 3,313 homes after 30 years.

1.10 Summary

1.10.1 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 aspirations to develop and build new homes while regenerating sheltered stock and retrofitting existing stock, means that the Council will need to take out additional borrowing to help finance the work required. Borrowing at the levels shown in this report means that existing plans for investment and new build can be met, while increasing stock over the medium term.

1.10.2 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 to address over the long term, to ensure that plans continue to be affordable and sustainable.

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

1.10.4 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 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 Government Grant and other external funding streams). The financial position could also be improved by ensuring that operating costs are minimised for the HRA, while maximising income.

2.0 PROPOSAL(S):

2.1 Members note the annual update to the HRABP 2021/22

3.0 OPTIONS:

3.1 Members note the annual update to the HRABP 2021/22

4.0 CONSULTATION:

4.1 The annual update of the HRABP has been developed in consultation with the Director of Services, Group Head of Residential Services, Group Head of Corporate Support.

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)	✓ (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	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6.0 IMPLICATIONS:

6.1 The capital expenditure contained in the HRABP update is based on the proposed budget for 2022/23 and the indicative budget for the following four 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 the baseline projections incorporate a medium-term efficiency programme to help keep costs down. However, it makes no allowance for further growth pressures or additional costs, for example from building safety works, changes to the decent homes standard, regulation of social housing or higher interest rate charges and increased inflation and its subsequent impact on the cost of materials and supply chain issues. There is a risk that costs assumed in the HRA Business Plan will be higher than anticipated, this will be mitigated through regular monitoring and continuous annual updating of the plan.

6.1.2 Members should note that the Business Plan is separate to the detailed HRA budget for 2022/23 which will be presented to this Committee as part of the budget setting process on 24 January 2022.

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 BACKGROUND PAPERS:

8.1 N/A