

Housing Revenue Account Medium Term Financial Plan

Cabinet

Date: 11th July 2018

1.1 Author: Cabinet Member for Housing and Public Safety
Corporate Director for Communities and Housing
Wards: All
Parishes Affected: All

2. Purpose and Reasons

- 2.1 This report sets out the Housing Revenue Account Medium Term Financial Plan “MTFP” over the next 30 years.
- 2.2 The effective management of financial resources through robust financial management processes underpins the Council’s ability to achieve its plans and priorities.

3. Recommendations

Cabinet is recommended to:

- 3.1 Endorse the Medium Term Financial Plan set out at Appendix 1.
- 3.2 Note that the plan will be updated annually to take into account changing policies and updated survey information.

4. Detail

Medium Term Financial Plan

- 4.1 This business plan is produced in order to set out the Council’s overall aims and objectives for the housing service, as a landlord for over 10,300 homes. Following the introduction of “self-financing” in 2012, the Council’s HRA (Housing Revenue Account) took on a significant amount of debt. Managing and repaying this debt from the rent income generated in the HRA is one of the key objectives of the business plan which needs to be financed from within the rent income generated itself.
- 4.2 There is a significant projected under investment in the council housing stock. The key focus for the Council is the medium term horizon and the next five years in particular. Government policy changes have enforced an annual reduction in rents of 1% per annum through to 2019/20 and this will directly affect the amount of funding available for capital investment and assumed in the previous financial plan.
- 4.3 The Council’s projections show a balanced revenue budget over 5 years, with total funding to support the capital programme of £116.2m compared with an investment requirement of £199.3m inflated over the same period. This is based

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on assumptions around rent increases being implemented in year 3 onwards, as well as around inflation costs, all of which are detailed in the MTFP itself.

- 4.4 The investment requirements used to formulate the plan are based on both the output of a Stock Condition Survey report from Pennington Choices conducted in 2016 and the latest approved capital programme which includes the Queens Drive redevelopment.
- 4.5 The key messages from the current Medium Term Financial Plan remain the same as that recognised in 2012 following the introduction of Self-financing. There continues to be a shortfall in funding available to undertake the investment required in the next 5 years. As a result of this shortfall, the investment will continue to be prioritised and will be directed largely towards:
- 4.5.1 maintaining homes to the Decent Homes Standard
 - 4.5.2 undertaking structural repairs to the non-traditionally built stock including the multi-storey blocks where viable to do so, and
 - 4.5.3 re-categorisation of the sheltered housing stock where finances allow
- 4.6 Although the Government has introduced a requirement for 1% rent cuts for the 4 year period to 2019/20, and allowing rents to increase by CPI +1% for 5 years beyond that, there is no visibility around rent levels beyond 2024/25. The MTFP has been prepared on the basis of a 3% annual increase from 2020, but this assumption materially affects the outcome of the plan in trying to estimate future resources.

5. Alternative Options

- 5.1 No alternative is proposed. The Medium Term Financial Plan reflects the future financial position of the HRA based on current policies. It is therefore good business practice that an MTFP is produced to aid future decision making through identifying the financial impact of those decisions.

6. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 6.1 The underlying message from the current business plan is that there is insufficient revenue resources to meet the capital needs of the HRA.
- 6.2 The current plan identifies a need for an additional £83.1m of capital over the next 5 years, and this is consistent with previous business plans produced since the initial options appraisal in 2012. The HRA currently has the capacity to borrow a further £58m before it reaches the borrowing limit imposed by Government of £172.6m. However, at least £7.6m of this extra borrowing capacity will be taken up by the debt required to support the Queens Drive

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development (already approved by Cabinet). In addition, any works required on the refurbishing / replacement of the high-rise blocks (pending the outcomes of the Grenfell enquiry) could reduce the borrowing head room further by as much as £36m, which at this stage has not been factored into the MTFP.

- 6.3 All additional borrowing needs to be considered against the desire to build new property whilst maintaining the existing stock. The current cost of new borrowing over 50 years from the Public Works Loan board is 3.32%, therefore for each £1m borrowed, the HRA debt cost would increase by £43.2k per annum (interest £23.2k plus capital repayment of £20k). However, any additional borrowing required to meet future capital commitments is likely to be at a higher rate and could potentially be as high as 3.5%, with a cost of £55.0k per annum.
- 6.4 This plan supports the current approach of prioritising investment in new build properties in order to meet growing housing needs. This approach will also enable some of the more expensive to maintain stock such as that on Queens Drive to be demolished and replaced with new homes, similar to the recently completed Sussex Place regeneration.
- 6.5 Currently the HRA capital repairs team are entering in to contracts to ensure effective use of the £15.5m of funding available in 2018/19. The entire budget for 2017/18 was spent during the year and capital works continue to be delivered through long term contracts over a number of years with spend aligned to the available budget.

Legal and Human Rights Implications

- 6.6 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 6.7 There are no such direct implications.

Diversity Impact Assessment (DIA)

- 6.8 As the MTFP is based on previous decisions, no Diversity Impact Assessment was required at this time. Any specific budgetary proposals generated as a result of the financial plan will be subject to individual DIAs.

7. Consultees

- 7.1 The Council's Report Writing standard requires authors to consult appropriate Corporate Directors, Directors or Heads of Service, other officers and relevant partners on the purpose, content, and recommendations of the report before it is

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presented for decision. In respect of reports to Cabinet, authors are also required to consult the relevant Cabinet Member.

8. Background Papers

8.1 None.

9. Appendices

9.1 Appendix 1 - HRA Medium Term Financial Plan

9.2 Addendum 1 - 30 Year financial operating account

9.3 Addendum 2 – Capital Investment Requirement

10. Key Decision/Decision in Cabinet Work Programme and Forward Plan

10.1 This is not a Key Decision.