

# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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### **Introduction**

- 1.1 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.
- 1.2 The Council faces substantial challenges as a result of changes in national housing policy, as well as financial issues in response to the wider National budget deficit. It is important therefore, that the Council has an up to date business plan setting out its plans over the short, medium and longer term.
- 1.3 This plan reflects the approved 2018/19 budget and continuing rent reductions over the next 2 years. It also reflects the most recent stock condition survey information which informs future investment requirements.

### **Background**

- 1.4 Under "self financing" the Council is required to plan over the longer term and develop and maintain a 30 year HRA Business Plan to manage its housing assets. The 30 year HRA Business Plan and five-year Medium Term Financial Plan (MTFP) are considered in this report.
- 1.5 The HRA is a 'ring fenced' landlord account. Its main features are:
  - 1.5.1 It is primarily a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities;
  - 1.5.2 Income comes mainly from rents and service charges to tenants
  - 1.5.3 Expenditure is mainly capital financing cost, loan charges and management and maintenance costs.
- 1.6 The following paragraphs provide details of the latest projections of the HRA and include:
  - A 30 Year HRA Business Plan
  - A 5 Year MTFP; (essentially a "snapshot" of the 30 year plan)
  - Capital Investment requirements
  - the HRA position on loans and investments;
  - HRA levels of reserves.
  - Links to the Housing Strategy

# Housing Revenue Account

## Medium Term Financial Plan - Appendix 1

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### Detail

#### **30 Year HRA Business Plan**

- 1.7 “Self-financing” introduced in 2012 replaced the previous subsidy system giving local authorities some degree of freedom in determining how HRA surpluses were used when and if they were generated. This freedom came at a cost in that the HRA had to repay the government for the lost subsidy and as a result, the HRA debt increased from £12m to £150m.
- 1.8 The self-financing payment figure was calculated by the Government based on a financial business plan over 30 years using a number of important assumptions, most notably around the level of future rent increases, the rate of Right to Buy sales and the level of “Right to Buy” receipts.
- 1.9 When “self-financing” was introduced in 2012, rents were assumed to increase by the Retail Price Index (RPI) from previous September plus 0.5%, and a convergence factor of up to £2 per week. Two changes since then have resulted in the current approach where the Council is now in the third year of applying a 1% rent reduction. This has significantly reduced the level of resources available for investment. Although the Government will allow rents to increase by CPI +1% for 5 years beyond that, there is no visibility around rent levels beyond 2024/25. There is also little certainty around rent policy after 2020/21 and the business plan is therefore highly dependent on future Government rent policy.
- 1.10 Officers produce and regularly update a 30 year HRA business plan which is used to identify the impact of income and expenditure decisions, as well as to ensure that the capital programme is affordable, not just in the short term, but over the medium and long term. This business plan has been used to inform the 5 year HRA MTFP.
- 1.11 The following paragraphs detail the key assumptions that have been used in the HRA 30 year business plan calculations. These are:
  - 1.11.1 Rent changes to follow current government guidance reducing by 1% per annum during 2018/19 and 2019/20. The rent assumption used for the business plan from 2020/21 and beyond is a 3% increase per annum.
  - 1.11.2 Debt of c£114.5m as at 31/3/2018 continues to be repaid at a rate of £5m per annum.
  - 1.11.3 Inflation increases for Housing Management and Repairs and Maintenance expenditure based on RPI of 2.0% for years 1 and 2, and 3.0% thereafter.
  - 1.11.4 Void property at 1.43% pa throughout the business plan period, with all voids moving directly to target rent levels as is the current policy.

# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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Historically, we have budgeted for voids at 1% and even as low as 0.7%, but until we can have some certainty on voids reducing following the previous contract failure, 1.43% is being used as representative of current empty property levels.

- 1.11.5 Bad debt provision at 1.5% of rent income in line with existing 2018/19 budget forecasts to reflect the impact of Universal Credit.
  - 1.11.6 Annual Right to Buy sales assumed at 72 for year 1, decreasing to 60 per annum for all following years. This affects the overall level of rent income as property numbers reduce.
  - 1.11.7 A minimum working level of HRA revenue reserves of £4m
  - 1.11.8 Capital Investment requirements based on the work carried out by Pennington Choices in 2016/17, with construction inflation at 2.0% per annum in year 1 and 3% for the remaining term of the business case
  - 1.11.9 It has been assumed that the Acquisitions Programme agreed in April 2017 will result in the purchase of 100 two and three bed properties over an 18 month period. During 2017/18 we purchased 46 properties under this scheme and progress continues to be made in 2018/19 to make further purchases. These will be let at an affordable rent.
  - 1.11.10 The Plan does include £1m which has been identified from within the existing Capital Maintenance programme to support Fire Safety Works within the high-rise blocks. It does not however reflect any further costs that may arise from any new Building and Fire Regulations emanating from the Grenfell Inquiry.
  - 1.11.11 The business plan includes the impact of delivering the Queens Drive Regeneration project as agreed by Cabinet in March 2018 at a cost of £30.5m
- 1.12 The outputs of the modelling process over the full 30 year period are shown in Appendix 2 which shows the revenue account projected over the next 30 years. In summary, the results show:
- a) A revenue budget generating a surplus annually over the full 30 year period;
  - b) Housing debt will be paid off in full by the end of 2041/42 taking into account extra borrowing required for the Queens Drive project.
  - c) HRA reserves being maintained to at least £4m to cover contingencies and coming close to this figure in 2020/21.

# Housing Revenue Account

## Medium Term Financial Plan - Appendix 1

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- d) Capital programme shortfalls against investment requirements in the first 5 years of the Plan is circa £83.1m. This includes capital investment for both planned maintenance and new build projects such as Queens Drive.

1.13 The business plan model **does not include** at this stage:

1.13.1 Investment requirements over and above that identified by the stock condition survey such as:

- a) A whole house retrofit approach when carrying out the exceptional extensive repairs to the non-traditional housing stock
- b) Remodelling of sheltered schemes to bring them up to modern day standards (other than £750k allowance for any works to re-categorise stock)
- c) Installation of new technology to make use of renewable energy such as solar Photo Voltaic (PV) or thermal energy and heat pumps etc.
- d) Regeneration of areas where it is not the most suitable option to repair non-traditional housing stock or improve the high-rise blocks of flats.

### 5 Year Medium Term Financial Plan (“MTFP”)

#### Capital Investment Need

1.14 The HRA Capital Programme contributes significantly to the Housing Strategy Priorities in two ways:

1.14.1 First, by improving the condition of the housing stock and providing better homes with modern facilities which are both warmer and more energy efficient,

1.14.2 Secondly, by funding the Development Programme for new housing.

1.15 Funding for capital investment can be provided by the following sources:

- a) Contributions from revenue budget surpluses (The “surplus for investment” in the table below)
- b) New Borrowing (up to the Government imposed “cap” of £172.6m)
- c) Capital Receipts (mainly from Right to Buy sales)

# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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- d) Capital Grants, where available
  - e) Drawing on existing reserves including the Major Repairs Reserve (MRR)
- 1.16 The Council's housing stock is maintained through its annual repairs and maintenance budget and improved and refurbished through its capital programme. The size of the capital programme depends on the balance between the need of the Council to improve its stock and the availability of funds to finance the improvements, mostly generated from tenant's rents.
- 1.17 Stock investment requirements form a central part of the HRA Business Plan and these have been derived from the last stock condition survey conducted in 2016/17,
- 1.18 The Stock Condition Survey (SCS) identified the investment requirements for the following 5, 10 and 30 year periods and indicated a potential shortfall of £76m within the first 10 years, which is consistent with previous findings.
- 1.19 However, investment programmes have been developed to ensure that homes continue to meet the Decent Homes Standard and resources are aligned with the SCS results from finalised report produced in 2016. The investment programme shows a budget allocation of £15.5m per year (un-inflated) which equates to £77.5m over the next 5 years.
- 1.20 The SCS survey results identified an extensive investment requirement of £73.9m for structural repairs and thermal improvement works to our non-traditional housing stock. A rolling programme of extensive repairs started in 2016/17 with over 200 properties refurbished to date at a cost of around £35k to £40k per property.
- 1.21 An assessment of the investment requirement to bring two of the high-rise blocks of flats up to a modern standard is also being conducted. Early indications are that they require an investment requirement of between approx. £4m and £6m per block. An options appraisal will be undertaken to assess alternative investment approaches or the possible decommission of them as appropriate.

### **Next 5 Years**

- 1.22 The key focus for the Council is the short to medium term horizon and the next five years in particular. The next five years have assumed that the 1% rent reduction continues until 2019/20 and thereafter the rent will revert to CPI +1% (currently estimated at 3%). During this period, an estimated income stream of some £252.6m will be available to the Council to meet its management, repairs, investment and debt costs.

# Housing Revenue Account

## Medium Term Financial Plan - Appendix 1

1.23 The headline figures from the Operating Account are shown in the table below:

| <b>5 Year Summary - Revenue</b>         |              |              |              |              |              |              |
|-----------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                         | <b>18/19</b> | <b>19/20</b> | <b>20/21</b> | <b>21/22</b> | <b>22/23</b> | <b>Total</b> |
| Total Income                            | 48,703       | 49,171       | 49,600       | 51,526       | 53,607       | 252,607      |
| Total Expenditure                       | -33,419      | -34,066      | -34,964      | -35,885      | -36,984      | -175,318     |
| sub-total                               | 15,285       | 15,105       | 14,635       | 15,640       | 16,624       | 77,289       |
| Debt Repayment                          | -5,000       | -5,000       | -5,000       | -5,000       | -9,527       | -29,527      |
| Loan Interest                           | -3,845       | -3,679       | -3,601       | -3,562       | -3,361       | -18,048      |
| Surplus for Investment                  | 6,439        | 6,426        | 6,035        | 7,078        | 3,736        | 29,714       |
| <b>5 Year Summary - Capital Funding</b> |              |              |              |              |              |              |
| Borrowing                               | 0            | 0            | 5,256        | 2,412        | 0            | 7,669        |
| Other RTB Receipts                      | 1,218        | 1,360        | 1,476        | 1,511        | 1,556        | 7,120        |
| Grant Funding                           | 3,936        | 0            | 1,018        | 0            | 919          | 5,873        |
| Revenue Contributions                   | 1,443        | 10,688       | 13,620       | 7,100        | 3,659        | 36,510       |
| Capital Reserves & Depreciation         | 19,395       | 9,525        | 9,752        | 9,985        | 10,376       | 59,033       |
| Total Funding                           | 25,992       | 21,572       | 31,122       | 21,008       | 16,510       | 116,205      |
| Investment Required                     | 44,114       | 39,560       | 48,821       | 38,415       | 28,351       | 199,262      |
| Funding Shortfall                       | -18,122      | -17,988      | -17,699      | -17,407      | -11,841      | -83,057      |

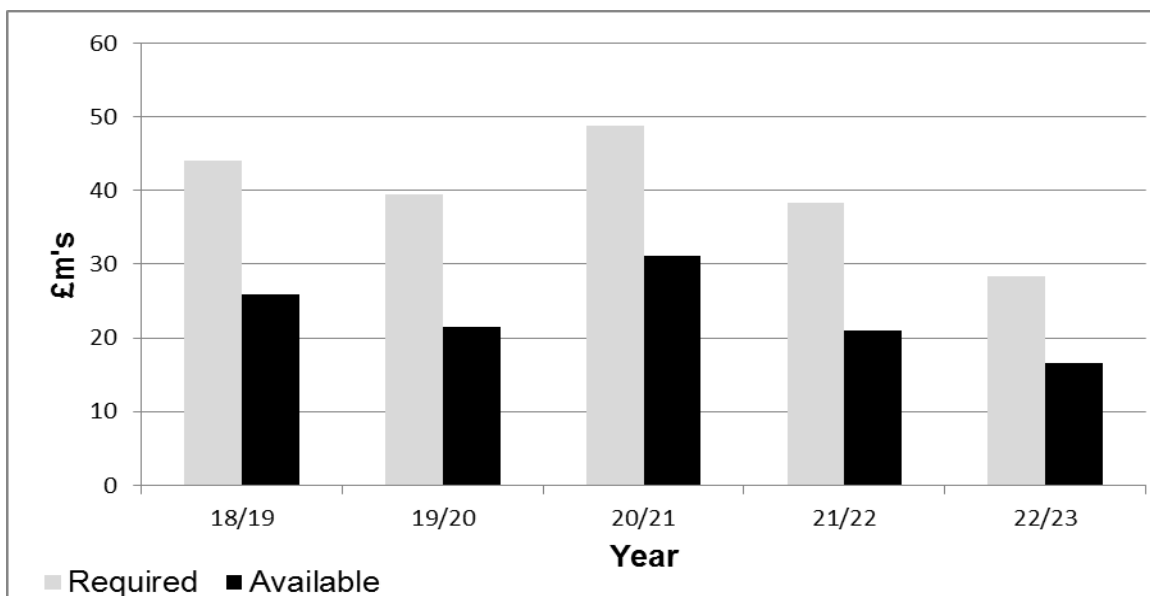
- 1.24 The Council's projections show a balanced revenue budget with funding to support the capital programme of £116.2m. This compares with an investment requirement of £199.3m over the same period, a total shortfall of £83.1m. This shortfall represents a significant increase on last year's MTFP due to the impact of including a significant new build and acquisitions programme of £36m which will draw on funding from both existing reserves and new borrowing.
- 1.25 The Stock Condition Survey breaks down all investment requirements into 5 year bands, other than for Future Major Works which is also provided on an annual basis for the first five years. The investment requirements, other than Future Major works are therefore assumed to be equally spread over each year in the five year band for modelling requirements in the absence of a detailed annual profile at this moment in time.
- 1.26 The headline outputs over the business plan period can be represented graphically and show the investment required compared with the resources available (after running costs and repayment of debt & interest), based on the assumptions previously outlined.
- 1.27 The following graphic shows a clear shortfall in required resources over the next 5 years.

# Housing Revenue Account

## Medium Term Financial Plan - Appendix 1

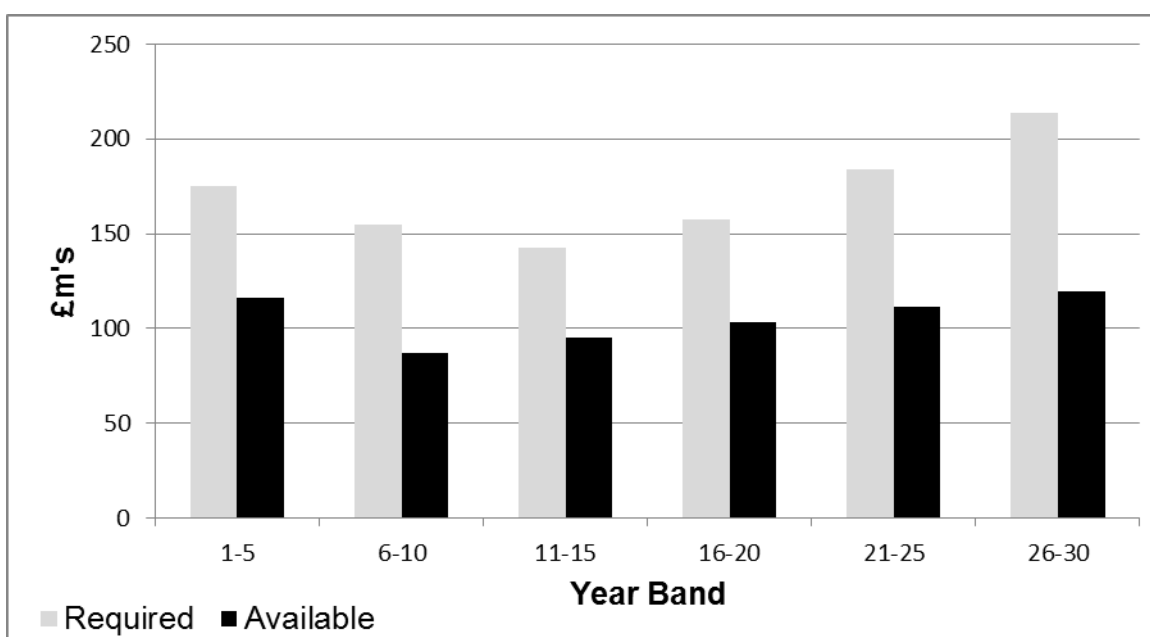
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**Graph 1: 5 year annual investment requirement**



1.28 The following graph shows the same information on a cumulative basis. This demonstrates that given the current approved capital programme and the required maintenance identified in the stock condition survey, funding will at no point reach a level to meet this demand without increased funding.

**Graph 2: 5 year cumulative investment requirement**





# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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- 1.29 Should rents not increase at 3% per annum from 2020 as is the assumption per this business plan, then deficits will increase. The DCLG announced in October 2017 that for 5 years from 2020, social housing rents increases will be limited to the Consumer Price Index (CPI) + 1% which is the assumption used for the Business Plan.

### **Social Housing Rents**

- 1.30 The main source of income for the HRA is rental income from dwellings which forms circa 87% of the total HRA income. This is based on a formula determined by Government aimed to “balance the need to ensure rents remain affordable with the need that landlords have the income they need to remain in good financial health and to invest, particularly in new affordable homes”.
- 1.31 Periodically, the Government amends this approach and has in the past used Retail Price Index (“RPI”) + 0.5% + £2, and then the Consumer Price Index (“CPI”) at September of the previous year + 1%. The Housing and Planning Bill represents the last such change, requiring local authorities to reduce rent levels by 1% per annum for each year from 2016/17 through to 2019/20, significantly reducing the overall resources available to invest in housing stock in contrast to the previous approaches.

### **Affordable Rents**

- 1.32 Affordable rent allows local authorities to set rents at levels that are typically higher than social rents, generating additional capacity for investment in new affordable housing. Homes let on affordable rent should be available at a rent level of up to 80% of gross market rents, inclusive of any service charges. Future rent increases / decreases on affordable rents are calculated on the same basis as social rents i.e. all rents will decrease by 1% in 2019/20 including affordable rents. Swindon affordable rents have been set at 80% of the applicable Local Housing Allowance with any service charges then added on top, although this may be subject to change following guidance from Homes England.
- 1.33 The rents on Affordable rented properties are reset to a figure based on 80% of the latest Local Housing Allowance rents when allocated to a new tenant, ensuring they keep track with local market rent levels.
- 1.34 Homes England require the Council to relet some of its social rented properties at affordable rents as a condition of the award of grant under the Governments Affordable Housing Programme to help finance the new build properties.
- 1.35 The Council also apply affordable rents to all new build properties part funded by Homes England grant as part of the grant conditions, and also those acquired



# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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under its acquisitions programme. At the end of 2018, 285 of the council properties had affordable rents.

### **Other Rental Income**

- 1.36 The HRA includes responsibility for managing some parking spaces as well as some commercial properties such as shops with a budget of £229k in 2018/19. These are subject to periodic rent reviews each year.

### **Service Charges**

- 1.37 In addition to their rent, tenants may also be required to pay service charges relating to additional services provided to specific tenants. Local authorities have discretion to decide what services to charge for separately, and what services should be included within the rent. These charges are reviewed annually with the intention of recovering costs and are subject to consultation and Council approval.

### **HRA Expenditure**

- 1.38 Housing Management costs can broadly be broken down into 3 distinct areas:
- Repairs and Maintenance: this relates to the day to day repairs and maintenance of the housing stock including responsive and void repairs;
  - Supervision and Management (General): these are the costs of policy and management of the housing stock, tenancy administration, rent collection and financing charges;
  - Supervision and Management (Special): these are the running costs of services that benefit specific groups of tenants including communal heating, lighting, lifts, caretaking, cleaning and ground maintenance

### **Treasury Management and HRA Debt Position**

- 1.39 Since the introduction of self-financing in 2012, the HRA has been managing down its debt from an initial balance of £150.5m. This comprises a number of loans of varying maturities and interest rates and are managed as part of the Councils wider debt portfolio through the Councils Treasury Management Team.
- 1.40 As at 31<sup>st</sup> March 2018, HRA debt stood at £114.5m against a Government imposed cap of £172.6m. The HRA therefore has the ability to borrow a further £58m to fund capital expenditure but is unable to borrow beyond this even if it can afford the loan repayments and interest. The borrowing head room of £58m also needs to accommodate the additional debt required to fund the Queens

# Housing Revenue Account

## Medium Term Financial Plan - Appendix 1

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Drive project of at least £7.6m, and any additional works required on the refurbishing / replacement of the high-rise blocks (pending the outcomes of the Grenfell enquiry) that could reduce the borrowing head room further by as much as £36m.

- 1.41 The current policy is to repay debt at £5m per annum which would have originally repaid all HRA debt over the next 23 years. At an average interest rate of 3.32%, this repayment saves £160,000 in interest each year. To the end of 2017/18, the impact of repaying £36m of principal has been an overall reduction in interest payments over the 6 years of around £2.7m.
- 1.42 The Government has allowed Councils to increase their borrowing cap through a bid process and discussions are ongoing with the Home Office to consider options that would provide further capital investment opportunities to support the planned maintenance programme. However, any increase in debt would require the HRA to finance the additional debt payments from existing resources.

### **HRA Reserves**

- 1.43 The overall level of HRA balances at the 31st March 2018 is considerably down on the March 2017 balance at £21.5m. The makeup of this balance is provided in the following table and shows that of this total, £6.3m of revenue balances are unallocated, (excluding the minimum working level of HRA revenue reserves of £4m). The Business Plan assumes that these reserves are the first form of funding drawn down to support future capital spend. Therefore, the plan indicates that these reserves will be near the minimum working balance by 2020/21.
- 1.44 The “Right to Buy” receipts can only be used to fund capital expenditure and must be in line with Government rules around match funding, and must be repaid, with interest, if not spent within 3 years of receipt.

| <b>Balances 31/3/18</b>                | <b>Allocated</b> |
|----------------------------------------|------------------|
|                                        | £m               |
| Capital                                | 10.1             |
| Revenue                                | 11.4             |
| <b>Total</b>                           | <b>21.5</b>      |
|                                        |                  |
| <b>Allocated to:</b>                   | <b>£m</b>        |
|                                        |                  |
| Prior year Capital Programme approvals | 17.8             |
| Retained Right to Buy Receipts         | 3.7              |
| <b>Capital Reserves sub-total</b>      | <b>21.5</b>      |
|                                        |                  |

# Housing Revenue Account

## Medium Term Financial Plan - Appendix 1

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|                                   |             |
|-----------------------------------|-------------|
| Earmarked to sheltered schemes    | 1.1         |
| Minimum Reserve Balance           | 4.0         |
| Un-allocated                      | 6.3         |
| <b>Revenue Reserves sub-total</b> | <b>11.4</b> |

### Links to the Housing Strategy

- 1.45 The housing strategy details a number of Action Points and sets out the role that the strategy can play in helping the Council meet its strategic objectives. Specifically the Strategy covers 4 key themes:
- Affordability – improving the offer,
  - Private rented housing – regulation and support,
  - Promoting and maintaining independence, and
  - Housing Growth – increasing the quality and diversity of housing.
- 1.46 The annual budget will therefore be developed with these themes and objectives in mind, alongside the investment needs of existing and future tenants. In practice, these objectives mean that over the next 5 years the HRA will:
- Deliver a Development Programme for new housing
  - Invest in existing property
  - Review sheltered housing with an emphasis on condition and suitability
- 1.47 These are covered in more detail below in the following paragraphs:

### Deliver a Development Programme for new housing

- 1.48 Based on its successful bid to the Affordable Housing Programme 2015-18 Swindon Borough Council has a Council housing development programme and the Council has pledged to deliver 266 new homes by March 2020. The Council has delivered on a contract to develop 104 properties by 2018 in exchange for a contribution of grant from the Homes England (formerly the Homes & Communities Agency). The largest single development in this programme was at Sussex Place, which was a £10 million regeneration scheme that is now completed. The programme also included a development at the Hawthorns to increase independent living options for people with care needs which again is completed.

# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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- 1.49 To deliver the remaining 162 homes alternative sources of funding are being assessed. A new grant funding scheme, the Shared Ownership and Affordable Homes Programme 2016 to 2021 was published on 13<sup>th</sup> April 2016, and this will be reviewed for further development opportunities.
- 1.50 In addition, the Queens Drive project that was approved by Cabinet on the 14<sup>th</sup> March 2018 will potentially deliver as many as 149 new units (subject to the final tenure mix) and contributing further to the new homes target.

### **Investment in existing property**

- 1.51 We are realigning our investment programme in line with the recommendations of the Stock Condition Survey, within the constraints of existing budgets.
- 1.52 We are required to ensure our housing stock meets The Regulatory Framework for Social Housing in England from April 2012, which includes a consumer standard known as the Decent Homes Standard.
- 1.53 Over 99.8% of our housing stock met the Decent Homes Standard at 1<sup>st</sup> April 2018. Our stock condition survey identified that approximately 5% of homes are potentially non-decent during the next 5 years. Surveys and programmes of work are planned to be carried out with the aim to ensure that all homes are compliant and maintained to the Decent Homes standard by 31<sup>st</sup> March 2018.
- 1.54 The first phase of comprehensive refurbishment, structural repairs, and insulation of our non-traditional stock has been completed with over 200 properties refurbished at the end of 2018. We continue to make provision for these extensive works and plan to let contracts for further phases of these works later in the year.
- 1.55 We have received the recommended 5-year investment profile which was commissioned as part of the Stock Condition Survey, and this has formed the basis for the developing programmes of work to address the areas identified in the Survey report
- 1.56 Given the substantial shortfall between available funding and investment requirement, it is essential that we continue to review the investment plan and set out the priorities and activities within the proposed Asset Management Strategy within the financial constraints.

# **Housing Revenue Account**

## **Medium Term Financial Plan - Appendix 1**

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### **Review sheltered housing with an emphasis on suitability and sustainability**

- 1.57 Swindon Borough Council will work to ensure that the housing stock in the Borough supports individuals to live independently for as long as possible.
- 1.58 The Housing Strategy identifies the need to provide a diverse range of options for people with specific housing needs due to medical circumstances. This will assist the Council in the delivery of its Health and Wellbeing Strategy. To assist with this Swindon Borough Council will look to use the Council Housing development and acquisition programme and existing stock to offer improved housing solutions to those with specialist needs as well as reducing costs. These options will be considered in the assessment of those individuals with learning disabilities currently placed out of Borough. This includes the planned development of larger bungalows, which we do not currently have in our housing stock, and the purchase of existing larger properties suitable for people with care needs.

### **Addendum 1: HRA MTFP 30 Year Operating Plan**

### **Addendum 2: HRA 30 year Capital investment requirements**