

Housing Revenue Account Medium Term Financial Plan

Cabinet

Date: 4th September 2019

Author: Cabinet Member for Housing and Public Safety
Corporate Director for Communities and Housing

Wards: All

Parishes Affected: All

1. Purpose and Reasons

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

2. Recommendations

Cabinet is recommended to:

- 2.1 Endorse the Medium Term Financial Plan set out at Appendix 1.
- 2.2 Note that the plan will be updated annually to take into account Central Government policies that have an impact of the Housing Revenue Account as well as the Council’s annual budget setting process.

3. Detail

Medium Term Financial Plan

- 3.1 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 it generates.
- 3.2 The detailed Plan included in the Appendices enables the Council to review the investment requirements for the Housing Revenue Account council housing stock over the next 5 years. Government policy changes previously enforced an annual reduction in rents of 1% per annum through to 2019/20 and this reduction directly affected the amount of funding available for capital investment. However, for 5 years from 2020/21, the Government have confirmed a policy to revert back to a rent cap of the Consumer Price Index (CPI) + 1% each year which may redress some of the funding issues of the last 4 years.
- 3.3 The Council’s projections show a balanced revenue budget over 5 years, with total funding to support the capital programme of £112.8m compared with an

Further information on the subject of this report can be obtained from Karl Read on 07824 081182, or Email ksread@swindon.gov.uk.

Housing Revenue Account Medium Term Financial Plan

Cabinet

Date: 4th September 2019

investment requirement of £194.2m inflated over the same period. This is based on assumptions around rent increases being implemented in year 2 (2020/21) onwards, as well as around inflation costs, all of which are detailed in the MTFP itself.

- 3.4 The investment requirements used to formulate the plan are based primarily on output from the Stock Condition Survey (SCS). This report was conducted by Pennington Choices in 2016 and the data provided at that time has been rolled forward in the subsequent years, but does not include the fire safety improvement work already carried out following the Grenfell Tower fire in June 2017 and further fire safety works planned to be undertaken to deal with inner rooms etc. Therefore, it is proposed to update the investment need when a new Decent Homes Standard has been publicised, which will also gather costs for future fire safety improvement works. The latest approved capital programme includes the Queens Drive redevelopment and three smaller bungalow developments already approved by Cabinet.
- 3.5 The key message from the current Medium Term Financial Plan is that there continues to be a shortfall in funding available to undertake the investment required over the next 5 years of around £81.4m. As a result of this shortfall, resources will continue to be prioritised and will be directed largely towards the following investment areas:
- 3.5.1 ensuring that homes are safe to live in and essential fire safety improvement work is carried out
 - 3.5.2 undertaking structural repairs to the non-traditionally built stock including the multi-storey blocks where viable to do so, and
 - 3.5.3 re-categorisation of the sheltered housing stock where finances allow
- 3.6 Although the Government has confirmed that rents can increase by up to CPI +1% for 5 years from 2020/21, beyond 2024/25, there is no clarity on future rent levels. 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.

4. Alternative Options

- 4.1 No alternative is proposed, although an extensive appraisal of alternative options to running the Housing Revenue Account were considered and documented in 2012 when HRA Self Financing commenced. 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.

Housing Revenue Account Medium Term Financial Plan

Cabinet

Date: 4th September 2019

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 The underlying message from the current business plan is that there are insufficient revenue resources to meet the capital investment needs of the HRA.
- 5.2 The current plan identifies a need for an additional £81.4m of capital over the next 5 years to meet the planned maintenance requirement, which is consistent with previous business plans, but does not include provision for fire safety improvement work identified since the initial options appraisal in 2012.
- 5.3 With the removal of the HRA debt cap in October 2018, the HRA has capacity to increase borrowing, but future increases in borrowing will be assessed on a scheme by scheme basis and will be dependent on each schemes ability to cover its debt in the timescales of the business plan. At least £3.9m of additional borrowing will be required to support the Queens Drive development and the three bungalow schemes (already approved by Cabinet). In addition, any works required on new housing projects and the possible replacement of the high-rise blocks (pending the outcomes of the Grenfell Inquiry) could result in further significant borrowing which at this stage has not been factored into the MTFP.
- 5.4 All additional borrowing requirements will need 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.
- 5.5 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 Sussex Place regeneration already completed off Queens Drive.
- 5.6 Currently the HRA capital repairs team are entering in to contracts to ensure effective use of the £15.4m of funding available in 2019/20 and capital works continue to be delivered through long term contracts awarded for a number of years with spend aligned to the available budget.

Legal and Human Rights Implications

- 5.7 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.

Housing Revenue Account Medium Term Financial Plan

Cabinet

Date: 4th September 2019

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

- 5.8 The quality and comfort levels within the Council's housing stock can directly impact the health of all those that the Council houses in its own accommodation. With approximately 4,000 non-traditionally built dwellings (in general these are a variety of steel frame/concrete panel systems) thermal comfort will continue to be a concern. This is being mitigated to a small degree by the demolition of some of the poorest performing homes such as those on Queens Drive and the delivery of the External Wall Insulation programme (two projects recently completed in Pinehurst and Stratton).
- 5.9 Diversity Impact Assessment (DIA)
- 5.10 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.
- 6. Consultees**
- 6.1 The Director of Finance (Section 151 Officer) and the Chief Legal Officer (Monitoring Officer) are consulted in respect of all reports.
- 7. Background Papers**
- 7.1 None.
- 8. Appendices**
- 8.1 Appendix 1 - HRA Medium Term Financial Plan
- 8.2 Addendum 1 - 30 Year financial operating account
- 8.3 Addendum 2 – Capital Investment Requirement
- 9. Key Decision/Decision in Cabinet Work Programme and Forward Plan**
- 9.1 This is not a Key Decision.