

# Housing Revenue Account Medium Term Financial Plan

**Cabinet**

**Date: 21<sup>st</sup> October 2020**

---

Author: Cabinet Member for Housing and Public Safety

Director of 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 10,200 homes. Following the introduction of “self-financing” in 2012, the Council’s HRA (Housing Revenue Account) took on a significant amount of debt, bringing its debt at that time to £150m. 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. In the last 8 years, £46m debt has been repaid, leaving a balance of £104m.
- 3.2 The key focus for the Council is the medium term horizon and in particular the next five years. However, there is a significant projected under investment in the council housing stock, linked directly to previous Government Policy changes including an enforced annual reduction in rents of 1% per annum through to 2019/20. This reduction directly affected the amount of funding available for capital investment, resulting in a loss of an estimated £18m funding over the last 4 years. For 5 years from 2020/21, the Government has now confirmed a policy to revert back to a rent cap of the Consumer

# Housing Revenue Account Medium Term Financial Plan

**Cabinet**

**Date: 21<sup>st</sup> October 2020**

---

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 £121.9m compared with an investment requirement of £203m inflated over the same period. This is based on assumptions around rent increases being implemented from year 1 (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 between the required investment in stock identified in the Stock Condition survey and the funding available over the next 5 years. This shortfall is around £81m. 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 Supporting the current approach of prioritising investment in new build properties in order to meet growing housing needs,
  - 3.5.2 Ensuring that homes are safe to live in and essential fire safety improvement work is carried out,
  - 3.5.3 Undertaking structural repairs to the non-traditionally built stock including the multi-storey blocks where viable to do so, and
  - 3.5.4 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. Rents increased by 2.7% in 2020/21 when CPI was 1.7%. Based on the current CPI levels, the business plan rates have been reduced and assume increases of 2% in 2021/22, 2.5% in 2022/23 and 3% in years beyond 2022/23.

# Housing Revenue Account Medium Term Financial Plan

**Cabinet**

**Date: 21<sup>st</sup> October 2020**

---

## **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.

## **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 Stock Condition Survey identifies a need for an additional £81m of capital over the next 5 years to meet the planned capital works requirement e.g. kitchens, bathrooms, windows etc. 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 £4.0m 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 £66.5k per annum (interest £33.2k plus capital repayment of £33.3k). However, any additional borrowing required to meet future capital commitments could be at a higher rate and could potentially be as high as 3.5%, with a cost of £55.0k per annum.
- 5.5 The Medium Term Financial Plan supports the current approach of prioritising investment in new build properties in order to meet growing housing needs including those needs of care leavers, older people, those with learning / physical disabilities and rough sleepers as examples. This approach will also enable some of the more expensive-

# Housing Revenue Account Medium Term Financial Plan

**Cabinet**

**Date: 21<sup>st</sup> October 2020**

---

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 £15.5m of funding available in 2020/21 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.

## Climate Change Impact

- 5.8 The new development and maintenance programmes delivered to date have continually evolved to take on latest practice in addressing climate change, including as an example, the programme of External Wall Insulation (EWI) that was delivered to over 200 properties by the end of 2018/19. Officers will continue to work through the requirements to mitigate any adverse carbon impact as new developments are designed and maintenance programmes developed. These will be brought back to the Cabinet Members to consider.

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

- 5.9 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 completed in 2018/19 in Pinehurst and Stratton).

## 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 Corporate Director of Finance and Assets (Section 151 Officer) and the Chief Legal Officer are consulted in respect of all reports.

# Housing Revenue Account Medium Term Financial Plan

**Cabinet**

**Date: 21<sup>st</sup> October 2020**

- 
- 6.2 The MTFP will be taken to Housing CMAG on the 7<sup>th</sup> October. Any feedback from this meeting will be provided verbally at Cabinet.

**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 and is included in the Cabinet Work Programme and Forward Plan for October 2020.