Housing Revenue Account

Medium Term Financial Plan - Appendix 1

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 10,200 homes.

1.2 The Council continues to face substantial challenges as a result of historical changes in national housing policy in the eight years since self financing was introduced, as well as financial issues as a result of the impact of the Covid-19 pandemic which are detailed in this report. It is essential 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 2020/21 budget and future years from 2021/22 where rents may rise by up to the Consumer Price Index (CPI) + 1%. It also reflects stock condition survey information informing future investment requirements and the capital programme to build new houses over the next 4 years.

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 comprised of mainly capital financing costs, 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, investments and reserves;
- Links to the Housing Strategy

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

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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 at that time 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 the previous September plus 0.5%, and a convergence factor of up to £2 per week. Changes since then resulted in 4 consecutive years of a 1% rent reduction, significantly reducing the level of resources available for capital investment. From 2020/21, the Government confirmed that rents could increase by up to CPI + 1% for 5 years. However, the impact of responses to the Covid pandemic create significant uncertainty around inflations levels over the coming years, and beyond 2024/25 there is still no visibility around Government policy on rent levels.

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 the latest government guidance increasing by CPI + 1% per annum during 2020/21 through to 2024/25. 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.

1.11.2 Debt of £104m as at 31/3/2020 continues to be repaid at a rate of £5m per annum.

1.11.3 Inflation increases for Housing Management and Repairs. Historically, we have budgeted for voids at 1%. Other expenditure has been based on RPI of 2% in 2020/21 rising to 3% by 2022/23 and remaining at this level thereafter.

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1.11.4 Void property at 1.0% pa (£400,000) throughout the business plan period, with all voids moving directly to target rent levels. This is a reduction of £100,000 on the 2019/20 budget. Work is still ongoing to streamline the void process, reducing the duration and number of voids.

1.11.5 Bad debt provision at 1.4% of rent income in line with the 2019/20 outturn levels. Since then, the Covid pandemic has resulted in increasing arrears, and this continues to be monitored against the provision of £600,000 allowed in the budget for 2020/21.

1.11.6 Annual Right-to-Buy sales assumed at 60 for year 1 to 30. This is a slight increase on the 2019/20 level of 52 but closer to the historic average.

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 3.0% per annum in year 1 to 30. Their report does not include additional fire safety works coming out of the Grenfell Enquiry.

1.11.9 It has been assumed that the Acquisitions Programme agreed in April 2017 will finish early in 2020/21. A new acquisition programme of £4 million was also agreed as part of the 2020/21 budget and it is assumed this will be spent during the year. During 2019/20 we purchased a further 32 properties under this scheme, with a total of 115 properties purchased since 2017.

1.11.10 The Plan includes the balance of a £1m budget 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 revised cost of £34m. In addition, it includes 3 bungalow schemes also approved by Cabinet. Crucially, these approved schemes will fully utilise existing reserves, meaning that new developments will require some degree of borrowing.

1.12 The outputs of the modelling process over the full 30 year period are shown in Addendum 1 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 2040/41 taking into account the completion of the Queens Drive project and other capital projects already

approved by Cabinet. Any subsequent development approvals such as the Windmill Hill development or refurbishment on the high rise blocks will lengthen this payback period.

c) HRA reserves being maintained to at least £4m to cover contingencies with reserves forecast to come close to this figure in 2022/23 to 2024/25.

d) Capital programme shortfalls against investment requirements in the first 5 years of the Plan is circa £81m. This includes capital investment for both planned maintenance and new build projects such as Queens Drive. Whilst the Operating Account shows a significant revenue surplus of £404m over the 30 year period of the Business Plan, this is insufficient to meet the capital investment requirements of £697m identified by the Stock Condition Survey over the same period.

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 and retrofitting of new technology to make use of renewable energy such as solar Photo Voltaic (PV) or thermal energy and heat pumps etc. to deliver the Council's commitment to be Carbon Neutral by 2030, and

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.

1.13.2 A planned programme to develop a number of sites for which consultation, Cabinet approval and Planning permission has yet to be conducted. These include the development at Windmill Hill and refurbishment on the high rise blocks. Depending on grant and other funding to be secured for these and other schemes, the balance of any funding is likely to be met by borrowing with debt repayments ideally over 30 years being in the region of £66.5k per annum per £1m borrowed. Each new development scheme is evaluated on its own merits.

1.13.3 The borrowing requirements of potentially refurbishing / redeveloping the high rise blocks. This may require borrowing in the region of £7m - £9m depending on other sources of funding that could also be used.

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 at Paragraph 1.23)

b) New Borrowing (Borrowing is now only restricted by the HRA's ability to make the repayments on the loan, with the previous cap on borrowing being abolished)

c) Capital Receipts (mainly from Right to Buy sales)

d) Capital Grants (primarily from Homes England)

e) Drawing on existing reserves including the Major Repairs Reserve (MRR) and Section 106 monies.

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 (SCS) that was conducted in 2016/17.

1.18 The Stock Condition Survey identified the investment requirements for the following 5, 10 and 30 year periods and indicated a significant shortfall consistent with this and previous business plans.

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

the 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 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 and work continues to deliver these improvements.

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 involving appraisal of a number of options as outlined in Paragraph 1.13.3.

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 reflect assumed rent increases reverting to the cap of CPI +1% (currently estimated at 2% and 2.5% for 2021/22 and 2022/23 respectively, and 3% thereafter). During this period, an estimated income stream of some £261.6m will be available to the Council to meet its management, repairs, investment and debt costs.

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

5 Year Summary - Revenue						
	20/21	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
Total Income	49,740	50,706	51,785	53,411	55,983	261,625
Total Expenditure	-35,942	-36,679	-37,587	-38,499	-39,605	-188,312
Sub-total	13,798	14,027	14,198	14,912	16,378	73,313
Debt Repayment	(5,000)	(5,000)	(5,000)	(5,000)	(9,029)	(29,029)
Loan Interest	(3,513)	(3,384)	(3,213)	(3,134)	(2,963)	(16,208)
Revenue Reserves	115	(2,934)	8,384	3,654	(2,448)	6,771
Surplus for Investment	5,400	2,709	14,369	10,431	1,937	34,847
5 Year Summary - Capital Funding						
Borrowing	-	-	-	4,029	-	4,029
Other RTB Receipts	855	736	789	1,088	1,121	4,589
Grant Funding / Sales Income	3,120	3,120	2,000	2,000	2,000	12,240
Revenue Contributions	5,400	2,709	14,369	10,431	1,937	34,846
Capital Reserves & Depreciati	15,522	17,234	10,844	11,101	11,538	66,239
Total Funding	24,897	23,799	28,002	28,649	16,596	121,943
Investment Required	42,035	40,466	44,107	44,107	32,239	202,954
Funding Shortfall	(17,138)	(16,667)	(16,105)	(15,458)	(15,643)	(81,011)

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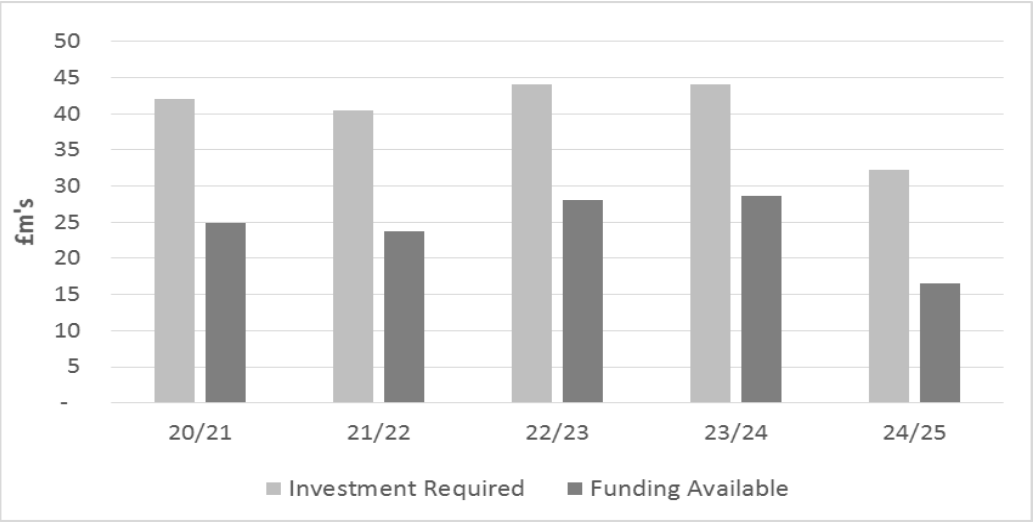
1.24 The Council's projections show a balanced revenue budget with funding to support the capital programme of £121.9m. This compares with an investment requirement of £203m as determined by the Stock Condition Survey for planned maintenance and development over the same period, a total shortfall of £81.0m.

1.25 The Stock Condition Survey breaks down all investment requirements into 5 year bands. The investment requirements 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. Investment for new build developments are spread over the 5 years based on their delivery plans.

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.

Graph 1: 5 year annual investment requirement



1.28 Over the longer term, the following graph shows similar information but for the full 30 years of the business plan. It demonstrates that given the current approved capital programme and the required maintenance identified in the stock condition survey, only from year 16 does the funding start to exceed the investment requirement each year, although this would not be sufficient to cover the backlog of maintenance from years 1 to 10.

Graph 2: 30-year investment requirement

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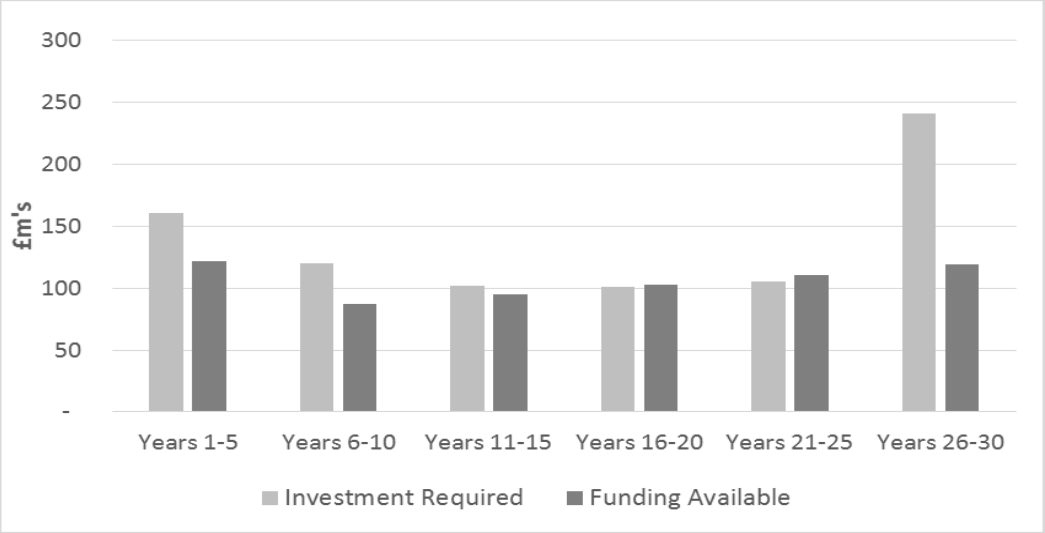

1.29 Should rents not increase at the rates included in the business plan, then deficits will increase. The DCLG announced in October 2018 that for 5 years from 2020/21, social housing rents increases will be limited to the Consumer Price Index (CPI) + 1% which is the assumption used for the Business 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 the last change in 2016/17 required a reduction of 1% per annum for 4 years to 2019/20. This significantly reduced the overall resources available to invest in housing stock in contrast to previous approaches. From 2020/21, the Government have confirmed that rent increases will be capped at CPI + 1% for 5 years. However, with the June Consumer Prices Index including owner occupiers' housing costs (CPIH) figure at 0.8%, the cap for rent increases in 2021/22 is unlikely to be above 2%.

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 rise up to a cap based on CPI + 1% for 2021/22 including affordable rents.

1.33 Rents on affordable rented properties are reset to a figure based on either 80% of the latest Local Housing Allowance rents or 80% of the latest Market Rent when they are allocated to a new tenant, ensuring they keep track with local market rent levels.

1.34 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 under its acquisitions programme. At the end of March 2020, the Council had a stock of 10,281 properties. A total of 433 of these had affordable rents (4.2% of the total stock) and 9,848 properties had social rents. Homes England will also support the development of social rented properties, the building of which is dependent on the level of funding provided.

Other Rental Income

1.35 The HRA includes responsibility for managing some parking spaces as well as some commercial properties such as shops with a budget of £306k in 2020/21. These are subject to periodic rent reviews each year.

Service Charges

1.36 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

1.37 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 as well as 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

1.38 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 that are managed as part of the Councils wider debt portfolio through the Councils Treasury Management Team.

1.39 As at 31st March 2020, HRA debt stood at £104m. Since the abolition of the previous debt cap, the HRA has the ability to borrow further providing it can afford to repay the debt in a suitable timeframe. The HRA Business Plan continues to prioritise the use of existing reserves to fund already approved new build projects such as the Queens Drive Development. Once these reserves reduce to the minimum working balance level of £4m, future new build schemes will require further borrowing resulting in increased debt levels and debt repayment costs.

1.40 The current policy is to repay debt at £5m per annum which based on current assumptions will repay all HRA debt over the next 20 years. At an average fixed interest rate of 3.32%, this repayment saves £160,000 in interest each year. This repayment has resulted in a significant reduction in annual interest payments from a figure of £5.0m in 2012/13 to £3.5m in 2020/21.

1.41 The Government abolished the previous borrowing cap in October 2018, allowing local authorities to determine their own levels of debt based on affordability. However, at the present time, the Council has not increased any of its debt, choosing instead to use existing reserves, right-to-buy receipts and grant income to fund its new build programme. Any increase in debt would require the HRA to finance the additional debt payments from existing resources.

HRA Reserves

1.42 The overall level of HRA balances at the 31st March 2020 has increased from £19.4m to a balance of £25.1m. The makeup of this balance is provided in the following table and shows that of this total, £7.7m 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 2022/23.

1.43 The “Right to Buy” receipts can only be used to fund capital expenditure and must be in line with Government rules around match funding. If these receipts are not used within 3 years of their receipt, they must be repaid to the Government with interest.

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Balances 31/3/20	**Allocated**
	£m
Capital	11.9
Revenue	13.2
Total	**25.1**
Allocated to:	**£m**
Prior year Capital Programme approvals	6.4
Retained Right to Buy Receipts	5.5
Capital Reserves sub-total	**11.9**
Earmarked to tenant chargeable services	1.5
Minimum Reserve Balance	4.0
Un-allocated	7.7
Revenue Reserves sub-total	**13.2**

Links to the Housing Strategy

1.44 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.

1.45 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

1.46 These are covered in more detail below in the following paragraphs:

Deliver a Development Programme for new housing

1.47 Over the past 5 years, the Council has delivered 104 new properties as part of the Affordable Housing Programme 2015-18. The largest single development in this

programme was at Sussex Place, which was a £10 million regeneration scheme that is now completed and occupied. The programme also included the Hawthorns development providing independent living options for people with care needs which again is completed.

1.48 In addition, the Queens Drive project that was approved by Cabinet on the 14th March 2018 will potentially deliver 149 new units (subject to the final tenure mix) and contribute further to the new homes target. The table below shows the impact of various stock changes over the last 4 years. There are also 3 schemes to provide 18 bungalows.

1.49 The following table demonstrates stock movements over the last 4 years, including both additional properties delivered through the development and acquisitions programmes, against those properties we have sold under right-to-buy legislation.

Year	Right-to-buy Sales	Additions (inc New Builds and Buy-backs)	Demolitions / Other Changes	TOTAL stock
2016/17	-74	53		10,277
2017/18	-59	53	28	10,299
2018/19	-66	119	-52	10,300
2019/20	-52	32	1	10,281
	-251	**257**	**-23**	

Investment in existing property

1.50 We are realigning our investment programme in line with the recommendations of the Stock Condition Survey, within the constraints of existing budgets.

1.51 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.

1.52 Over 98.88% of our housing stock met the Decent Homes Standard at 1st April 2020. The 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.

1.53 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.

1.54 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 developing programmes of work to address the areas identified in the Survey report

1.55 Given the substantial shortfall between the available funding and the investment requirement, it is essential that the Council continue to review the investment plan and set out the priorities and activities within the proposed Asset Management Strategy within the financial constraints.

1.56 Swindon Borough Council will work to ensure that the housing stock in the Borough supports individuals to live independently for as long as possible. This is not a definitive list but includes care leavers, older people, those with learning / physical disabilities and rough sleepers.

Addendum 1: HRA MTFP 30 Year Operating Plan

Addendum 2: HRA 30 year Capital investment requirements

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