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. Since April 2012 when "self-financing" was introduced, the Council's HRA (Housing Revenue Account) took on a significant amount of debt which needs to be financed from within the rent income it generates.

1.2 Externally, the Council faces substantial changes in national housing policy, as well as financial issues more widely as a result of the National budget deficit, and therefore it is important that the Council has an up to date business plan that sets out its plans over the short, medium and longer term.

1.3 This plan has been updated to reflect the approved 2017/18 budget and rent reductions over the next 3 years. It has also been updated with the most recent stock condition survey information which informs future investment requirements.

Background

1.4 The HRA provides the income and expenditure associated with maintenance of the Council's housing stock .The Council is required to set an annual HRA budget and set the level of tenants' rents and other charges.

1.5 Under the Government's new system of housing finance from April 2012, the Council is required to plan over the longer term and develop a 30 year HRA Business Plan to manage and maintain its housing assets. The 30 year HRA Business Plan and five-year MTFP are considered in this report.

1.6 The HRA is a 'ring fenced' landlord account. The main features of the HRA are:

- It is primarily a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities;
- The main items of income are from tenants in the form of rents from Council dwellings, commercial property and where applicable service charges
- The main items of expenditure included in the account are management and maintenance costs, loan charges and depreciation costs.

1.7 The ensuing 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

Further information on the subject of this report can be obtained from Ian Burbidge, Direct Dial Telephone Number 01793 464384, iburbidge@swindon.gov.uk.

- details of the Governments policy guidance on rent levels from 2017/18
- details of future policy changes expected from 2017/18
- the HRA position on loans and investments;
- HRA levels of reserves.
- Links to the Housing Strategy

Detail

30 Year HRA Business Plan

1.8 Since "self-financing" was introduced in 2012, the HRA has had more financial freedom than that under the previous subsidy system, where any surplus from rents and other income over and above the costs of services were, in the case of Swindon, repaid to the Government as "subsidy".

1.9 However under self-financing, a payment was made by the Council of £138.6m to the Government in order to "buy out" of the subsidy system. This resulted in total HRA debt rising to £150.5m, the HRA had pre-existing debt of £11.8m.

1.10 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.

1.11 Government rent policy guidance, introduced nationally for local authorities in April 2002, had in previous years established the local authority average guideline rent increase by applying Retail Price Index (RPI) inflation at the previous September plus 0.5%, and a convergence factor of up to £2 per week. The £2 per week convergence factor cap reflected the policy objective of increasing Local Authority rents to similar levels to those charged by Registered Providers (Housing Associations). The allocation of debt to Swindon was therefore calculated as being affordable based on rent increases in line with the policy in place at the time which has now changed and is detailed later on in this paper.

1.12 In 2015/16, the Government rent policy changed from that outlined above, to linking rent increases to a maximum of CPI + 1% for a period of 10 years. CPI is historically lower than RPI, so this change was expected to reduce the overall income generated from rents and therefore available for capital investment.

1.13 From 2016/17, the Welfare Reform and Work Act 2016 imposed an obligation on social landlords to reduce rents by 1% per year from April 2016 for a four year

period (this change was delayed until 2017/18 for sheltered and supported accommodation). This reduction materially impacts the level of resources available for investment within the HRA. There is no clarity around rent policy beyond the 4 years and therefore the plan is highly dependent on future Government rent policy after 2019/20.

1.14 For sheltered and supported housing from April 2019, the proposal is to limit welfare claims to the Local Housing Allowance rate. If a top up is required to cover economic cost then grant funding will be made available to local authorities to administer.

1.15 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.

1.16 The following paragraphs detail the key assumptions that have been used in the HRA 30 year business plan calculations. These are:

1.16.1 Rent changes to follow national guidance from 2016/17, reducing by 1% per annum for a period of 4 years. The rent assumption used for the business plan from 2020/21 and beyond is 3% per annum.

1.16.2 Debt of c£125.5m as at 31/3/2017 continues to be repaid at a rate of £5m per annum.

1.16.3 Inflation increases for Housing Management and Repairs and Maintenance expenditure based on RPI of 2.0% for year 1, and 3.0% thereafter.

1.16.4 Void property at 1% pa throughout the business plan period, with all voids moving directly to target rent levels as is the current policy. This allows for the time a property is empty between lettings and is based on historic experience.

1.16.5 Bad debt provision at 0.7% of rent income in line with existing 2016/17 budget forecasts. This will need to be reviewed as the impact of Universal Credit begins to impact rents collected.

1.16.6 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.

1.16.7 A minimum working level of HRA revenue reserves of £4m

1.16.8 Capital Investment requirements based on the recent stock condition surveys in 2016/17, with construction inflation assumed at 2.0% p.a. in year 1 and 3% for the remaining term of the business case.

1.16.9 Impacts of the Asset Transfer agreed at Cabinet in February 2017 are incorporated in the Business Plan including the repayment of debt, the impact of transferring garages to the General Fund and the transfer of various houses from the General Fund into the HRA from the 1st April 2017.

1.16.10 It has been assumed that the Acquisitions Programme agreed in April 2017, will result in the purchase of 100 three bed properties over an 18 month period. These will all be let at an affordable rent.

1.17 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 revenue budget generating a surplus annually over the full 30 year period;
- Housing debt paid off in full by the end of 2041/42
- HRA reserves being maintained to at least £4m to cover contingencies
- Capital programme shortfalls against investment requirements in the first 5 years of the Plan is circa £29m

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

1.18.1 The potential costs and income that will be generated by the Queens Drive Development which will be dependent on site capacity and planning requirements. A report will be brought to a future Cabinet with details of the proposals for Queens Drive, this report will provide an update on all of the new build programmes.

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

- A whole house retrofit approach when carrying out the exceptional extensive repairs to the non-traditional housing stock
- Remodelling of sheltered schemes to bring them up to modern day standards (other than £750k allowance for any works to re-categorise stock)

- Installation of new technology to make use of renewable energy such as solar Photo Voltaic (PV) or thermal energy and heat pumps etc.
- 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

1.18.3 Any use of borrowing headroom, (the difference between actual debt and the allowed limit)

5 Year Medium Term Financial Plan ("MTFP")

Capital Investment Need

1.19 The HRA Capital Programme contributes significantly to the Housing Strategy Priorities by improving the condition of the housing stock and providing better homes with modern facilities which are warmer and more energy efficient.

1.20 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.

1.21 Stock investment requirements form a central part of the HRA Business Plan and these have been derived from recent survey information.

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

- Contributions from revenue budget surpluses (The "surplus for investment" in the table below)
- New Borrowing (up to the Government imposed "cap" of £172.6m)
- Capital Receipts (mainly from Right to Buy sales)
- Capital Grants, where available

1.23 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 fairly consistent with previous findings.

1.24 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 April 2016. The investment programme shows a budget allocation of £15.7 million per year (un-inflated) which equates to £78.5 million over the next 5 years.

1.25 The SCS survey results also identified an extensive investment requirement of £73.9 million for structural repairs and thermal improvement works to our non-traditional housing stock. A rolling programme of extensive repairs and full refurbishment works has commenced with investment of around £35k to £40k per property.

1.26 An assessment of the investment requirement to bring two of the high-rise blocks of flats up to a modern day standard, which has identified an investment need of approx. £3.4 million per block. An options appraisal has been undertaken to assess alternative investment approaches or decommission them as appropriate.

Next 5 Years

1.27 The key focus for the Council is the short to medium term horizon and the next five years in particular. The next 5 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 rental stream of some £240.9m will be available to the Council to meet its management, repairs, investment and debt costs.

1.28 The headline figures from the Operating Account are shown in the table below, (there is an extra week's rental income in 2020/21 which reflects the "week 53" adjustment that occurs every 5-6 years).

5 Year Summary

	17/18	18/19	19/20	20/21	21/22	Total
Total Income	48,945	48,487	48,910	49,399	50,703	246,443
Total Expenditure	-12,924	-13,182	-13,578	-13,985	-14,405	-68,074
sub-total	36,021	35,305	35,332	35,414	36,298	178,369
Debt Repayment	-5,000	-5,000	-5,000	-5,000	-5,000	-25,000
Loan Interest	-4,028	-3,862	-3,696	-3,530	-3,364	-18,482
Surplus for Investment	26,992	26,442	26,635	26,883	27,934	134,887
Investment Required	33,622	29,878	32,343	39,698	28,351	163,893
Funding Shortfall	-6,630	-3,436	-5,708	-12,815	-418	-29,006

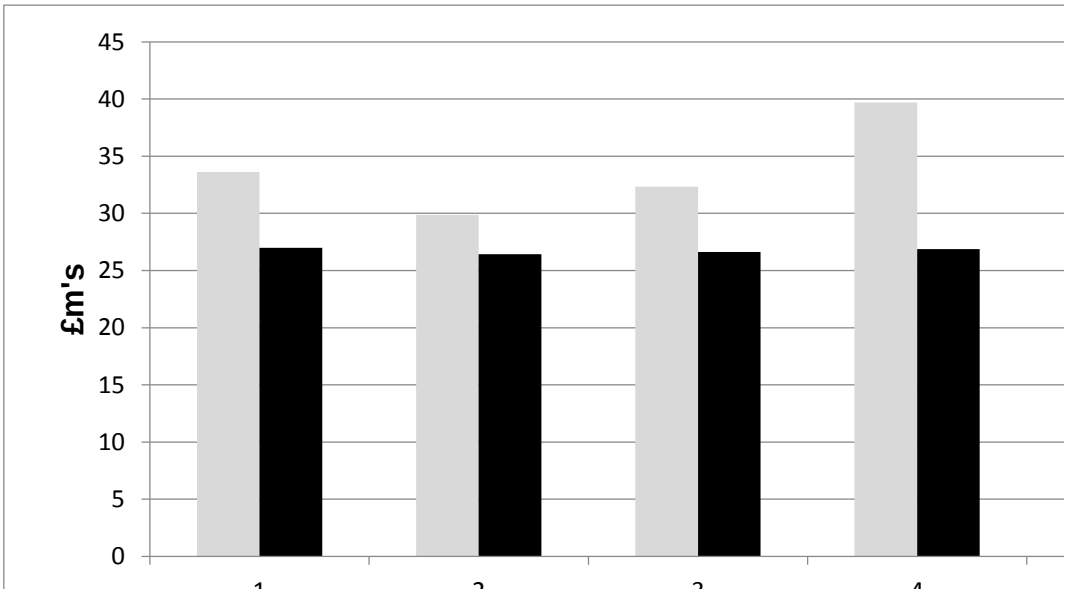
1.29 The Council's projections show a balanced revenue budget with revenue support to the capital programme of £134.9m (including Responsive and Cyclical Maintenance). This compares with an investment requirement of £163.9m over the same period, a total shortfall of £29m.

1.30 The SCS report 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 5 years. The investment requirements, other than Future Major Works, are therefore assumed to be equally spread over each year in the 5 year band for modelling requirements in the absence of a detailed annual profile at this moment in time.

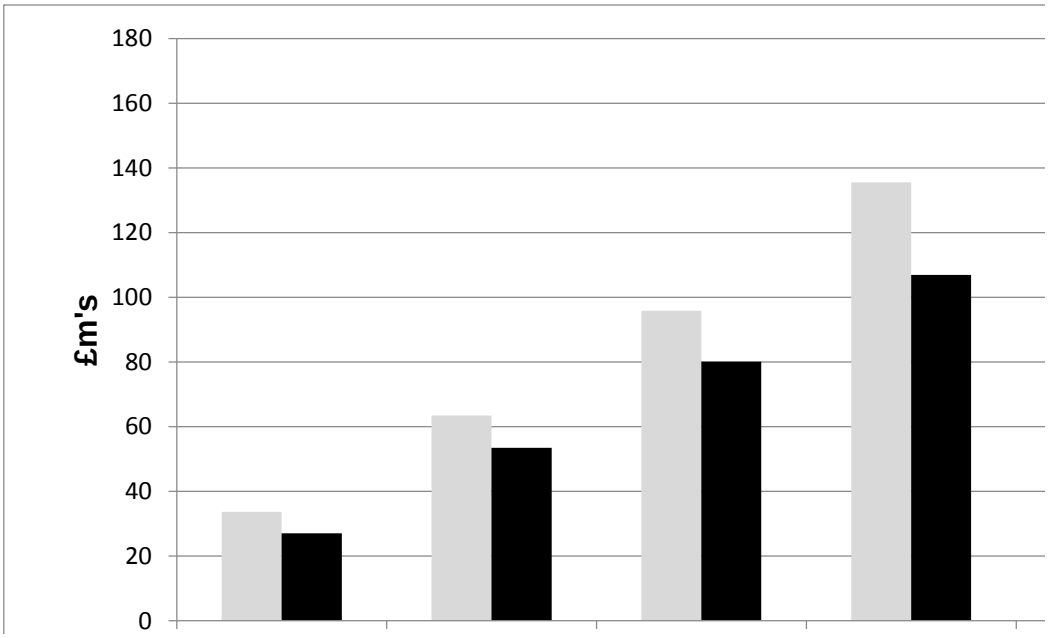
1.31 The headline outputs over the business plan period can be represented graphically and shows the investment required compared with the resources available (after running costs and repayment of debt & interest), based on the assumptions previously outlined.

Graph 1: 5 year annual investment requirement



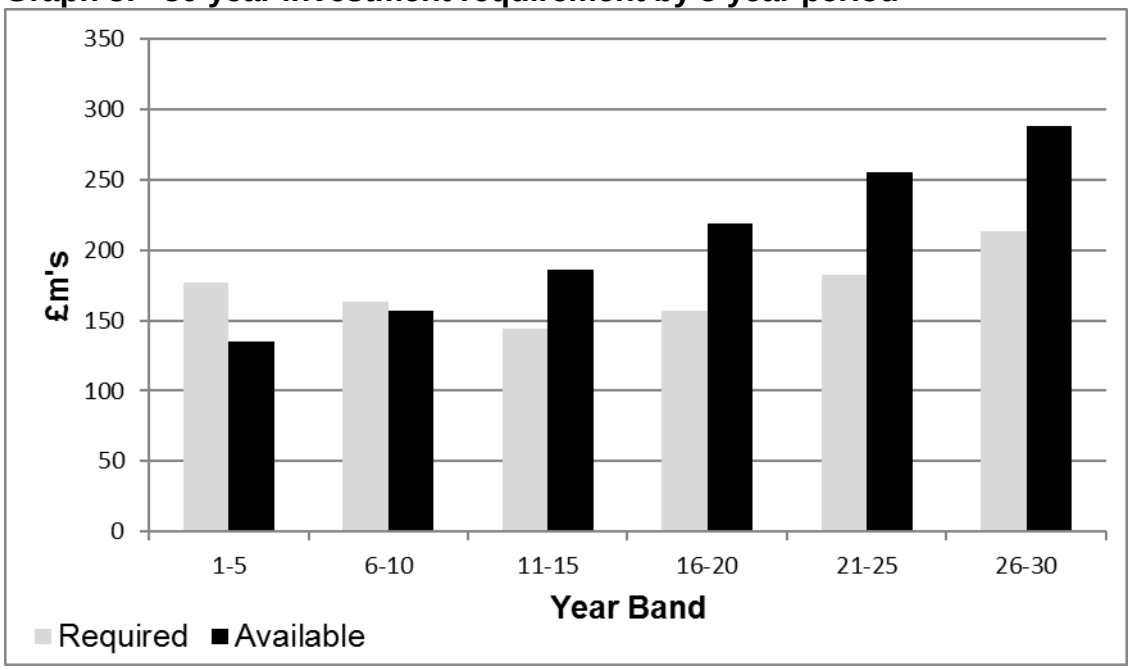
1.32 The above graphic shows a shortfall in required resources in each of the 5 years. The following graphic shows the same information on a cumulative basis.

Graph 2: 5 year cumulative investment requirement

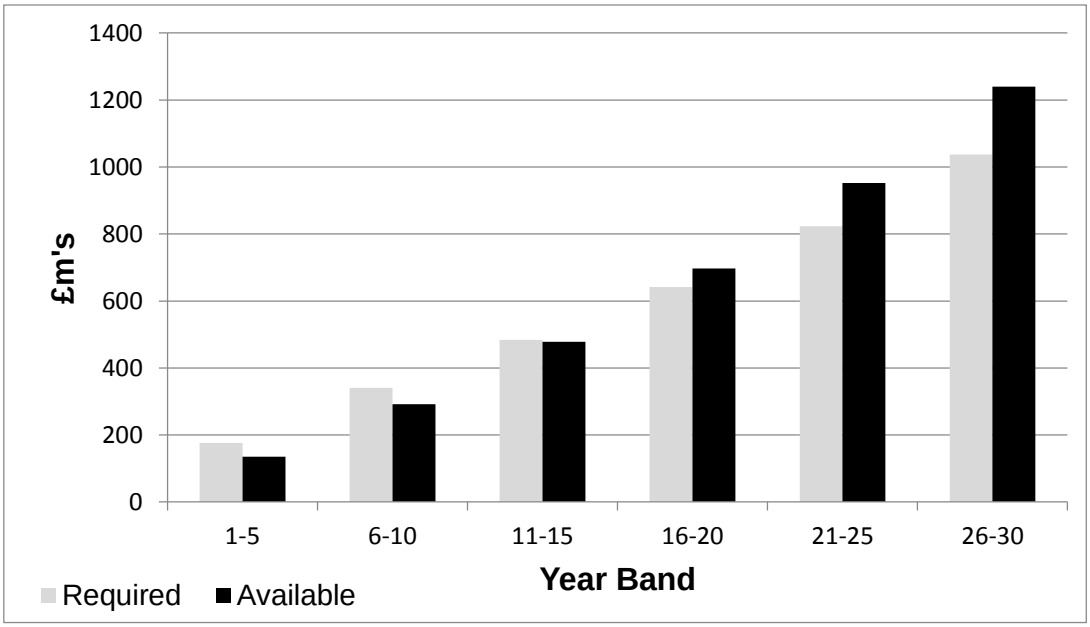


1.33 The following graphs show the full 30 year position, per each 5 year band and cumulatively.

Graph 3: 30 year investment requirement by 5 year period



Graph 4: Cumulative 30 year investment requirement



1.34 Graph 3 above shows that there is a projected shortfall in available funding up until year 10 but as debt is repaid and rent income increases then available funding increases to a point where it exceeds the investment requirements from years 11-15.

1.35 Graph 4 shows that over the whole 30 years of the business plan, there is a projected overall surplus between funding required and that available. The plan indicates that the additional funding in years 11-30 is sufficient to offset the shortfall in years 1-10, however the Council should be mindful that this results in a delayed investment in the Council housing stock.

1.36 Should rents not increase at 3% per annum from 2020 onwards as is the assumption per this business plan, then deficits will increase. Social and Affordable Rental income in 2020/21 is estimated at £43.574m, if rents do not increase in 2020/21 and stay at the 2019/20 level this will equate to £43.269m being received, a drop of £305k.

Social Housing Rents

1.37 The main source of income for the HRA is rental income from dwellings paid to the Council by tenants. Local authority rents are determined by a formula set by Government based on capital values and regional earnings and the policy of moving actual rents towards formula rents is known as “rent convergence”

1.38 In the past, the Government has set a guideline increase or decrease to actual rents based on the change in the Retail Price Index (“RPI”) + 0.5% + £2 with the

intention that this would move or "converge" the actual rents paid towards the ***"formula***" rent target. The Government's self-financing determination assumed that local authorities followed this guideline.

1.39 The Government issued ***new policy guidance in May 2014***, of which one of the stated aims is "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".

1.40 The guidance previously stated that for formula rents, from 2015-16 to 2024-25, would be uplifted each year by the Consumer Price Index ("CPI") at September of the previous year + 1%.

1.41 The Welfare Reform and Work Act 2016 imposed an obligation on social landlords to reduce rents by 1% per year from April 2016 for a four year period which significantly reduces the overall resources available to invest in housing stock.

1.42 Announcements on future rent policy beyond 2020 are awaited. One option is that rent policies will be negotiated locally depending on the local appetite to develop additional affordable housing.

Affordable Rents

1.43 Affordable rent allows local authorities to set rents at levels that are typically higher than social rents, the intention (as stated by Government) being that this flexibility allows the generation of additional capacity for investment in new affordable housing. Homes let on affordable rent terms should be made available at a rent level of up to 80% of gross market rents, inclusive of service charges where applicable. Local authorities should increase rents for properties let on affordable rent terms on the same basis as social rents, i.e. a reduction of 1% per annum to 2019/20. Swindon affordable rents are set at 80% of the applicable Local Housing Allowance with any service charges then added on top.

1.44 On each occasion that an affordable rent tenancy is issued for a property – whether it is let to a new tenant, or an existing tenant is re-issued , local authorities should re-set the rent based on a new valuation, to ensure it remains no more than 80% of the relevant market rent. The only exception to this is where the accommodation is re-let to the same tenant as a consequence of a probationary tenancy coming to an end. In this case an authority is not expected to re-set the rent.

1.45 As a condition of the award of grant under the Governments Affordable Housing Programme, the Council must let a proportion of its new lets at affordable rent levels which will generate additional income to help finance the new build properties in addition to the grant award.

Since October 2015, properties have been converted when they are vacant, and people are given the choice to bid on them in the normal way, and on the same tenancy terms as other housing. This would be done over the three years of the Affordable Housing Programme. Approximately 110 properties at social rent have been converted to affordable rent to date.

Other Rental Income

1.46 Following a recommendation in the February 2017 Cabinet report, the ownership of garages passed from the HRA to the General Fund on the 1st April 2017. Under this arrangement, the income and any ongoing costs in terms of operation and maintenance will also pass to the General Fund.

1.47 Although some shops and commercial properties also transferred to the General Fund as part of the previously mentioned Cabinet Report, the HRA still retains a number of such properties which are subject to periodic rent reviews. The HRA did receive a number of houses and development land as part of the transfer arrangements. The HRA commercial property budget for 2017/18 is £144k.

Service Charges

1.48 In addition to their rent, tenants may also be required to pay service charges. Service charges usually relate to additional services provided to specific tenants. Different tenants may receive different types of service reflecting their housing circumstances. 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.

Future Government Initiatives impacting income

1.49 In addition to the requirement to reduce social rents by 1% per annum for each of the next 3 years to 2019/20, the Government was proposing the following changes to policy. This business plan will need to be reviewed once the new Government's policies become clear.

1.50 Sale of high value homes – the Government pledged to extend Right to Buy to Housing Association tenants, and propose to fund the cost of replacing the properties sold through a requirement for Local Authorities to sell off their "high value" properties. The Government is planning its own calculation around the number of "high value" homes in each area, and to require Councils to make payments in line with these calculations rather than forcing Councils to actually

sell. The timing of enacting this is dependent on the roll out of the latest national pilot.

1.51 The Housing and Planning Act also contains a number of other measures that will impact on housing revenue account business plans and these will be kept under review and reflected in future business plans where applicable.

HRA Expenditure

1.52 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

1.53 Since HRA self- financing in April 2012, the HRA has been responsible for servicing the debt interest costs that arose out of the requirement to pay Government a sum of £138.6m.

1.54 A number of loans of varying maturities and interest rates were taken out from the Public Works Loans Board, and these are managed as part of the Councils wider debt portfolio through the Councils treasury management team.

1.55 As at 31st March 2017, HRA debt stood at £125.5m as against a Government imposed cap of £172.6m. The HRA therefore has the ability to borrow a further £47.1m to fund capital expenditure but is unable to borrow beyond this even if it can afford the loan repayments and interest.

1.56 The current policy is to repay debt at a rate of £5m per annum which would repay all HRA debt over the next 25 years. The current average interest rate on HRA debt is 3.32% and therefore annual debt repayment at this level saves £160,000 in interest payments each year per £5m repaid. To the end of 2016/17, the impact of repaying £25m of principal has been an overall reduction in interest payments over the 5 years of around £1.7m.

1.57 The Government has allowed Councils to increase their borrowing cap through a bid process and therefore Swindon's cap has the potential to increase in future

years, although of course the HRA would need to finance the additional debt payments from existing resources.

HRA Reserves

1.58 The overall level of HRA balances at the 31st March 2017 is slightly up on the March 2016 balance at £35.5m. The makeup of this balance is provided in the following table: and shows that of this total, £7.2m of revenue balances are un-allocated, (excluding the minimum working level of HRA revenue reserves of £4m).

1.59 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.

Balances 31/3/17	**Allocated**
	£m
Capital	22.9
Revenue	12.6
Total	**35.5**
Allocated to:	**£m**
Prior year Capital Programme approvals	6.9
Retained Right to Buy Receipts	4.0
Reallocation to new Acquisitions Programme	12.0
Capital Reserves sub-total	**22.9**
Earmarked to sheltered schemes	1.4
Minimum Reserve Balance	4.0
Un-allocated	7.2
Revenue Reserves sub-total	**12.6**

Links to the Housing Strategy

1.60 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.

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

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

Deliver a Development Programme for new housing

1.61 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 a contract to develop 104 properties by March 2018 in exchange for a contribution of grant from the Homes & Communities Agency. The largest single development is at Sussex Place, which is a £10 million regeneration scheme which is almost at completion stage at the time of this report. The programme also includes a development at the Hawthorns to increase independent living options for people with social care needs.

1.62 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 13th April 2016, and this will be looked at for further development opportunities.

Investment in existing property

1.63 We are realigning our investment programme in line with the recommendations of the Stock Condition Survey, within the constraints of existing budgets. A new Asset Management Strategy is being developed and will be presented later this year, which will take account of the identified needs.

1.64 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.

1.65 Over 99.7% of our housing stock met the Decent Homes Standard at 1st April 2017. Our SCS 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 31st March 2018.

1.66 The first phase of comprehensive refurbishment, structural repairs, and insulation of our non-traditional stock has commenced. 53 homes were completed in 2016/17, with a further 167 to be completed in this phase by the end of 2017/18. We continue to make provision for these extensive works and plan to let contracts for further phases of these works later in the year.

1.67 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.

1.68 Given the 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.

Review sheltered housing with an emphasis on suitability and sustainability

1.69 Swindon Borough Council will continue to ensure that the housing stock in the Borough supports individuals to live independently for as long as possible. Therefore we are developing an innovative, affordable sheltered housing model to support older people, as well as people with disabilities.

1.70 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 stock investment requirements

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Medium Term Financial Plan - Appendix 1

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