Report To:	**CABINET**	**Date:**	**26TH January 2021**
Heading:	**HOUSING REVENUE ACCOUNT MEDIUM TERM FORECAST 2020/21 – 2024/25**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN PORTFOLIO HOLDER FOR FINANCE & RESOURCES**		
Ward/s:	**ALL**		
Key Decision:	**Yes**		
Subject to Call-In:	**Yes**		

Purpose of Report

To update Members on the forecast financial position of the Housing Revenue Account (HRA) for the next five years.

Recommendation(s)

1. That Cabinet note the impact of the five year financial forecast and the inherent financial risks within.

Reasons for Recommendation(s)

To provide Cabinet with an up to date medium term financial forecast for the HRA.

Alternative Options Considered
(with reasons why not adopted)

None, the report is for information.

Detailed Information

1. Introduction

1.1 The formation of a Housing Revenue Account (HRA) 30-year financial business plan has been a requirement since the replacement of the HRA subsidy system with the self-financing system in April 2012. Housing authorities need to regularly perform and review resource utilisation exercises that broadly adopt the following principles:

- Rents must remain sufficient to service existing debt and maintain service delivery.
- A statutory obligation to maintain the Housing Stock to a Decent Homes Standard and Housing Health and Safety Rating System (HHSRS) standard, which will also ensure they continue to generate sufficient rental income.

Should resources allow:

  - prioritised service delivery changes can be considered
  - development and growth can be considered
  - support the use of Right to Buy receipts in delivering new or existing affordable rented housing
  - debt repayment can be considered

2. Current Position

2.1 At 31 March 2020, the HRA balance was £36.8m. The minimum balance to be held by the HRA is £2.5m.

2.2 A medium term forecast has been derived from the HRA 30 year business plan for the next five years in Table 1 below. This is based on known commitments and assumptions, as detailed in Table 2 below. The HRA balances are forecast to diminish from £36.8m to £24.4m by 31 March 2025.

2.3 The main area of expenditure is the financing of the capital programme, which includes the development of new build properties across the District, bringing empty properties back into use and further investing into the existing stock following a review of the asset maintenance requirements through a refreshed stock condition survey (ref 3.6 below).

2.4 A number of financial risks that would affect the forecast if they came to fruition need to be considered:

- Rental income lower than forecast as a result of lower rent increases (ref 3.1 below) and/or non-payment of rent (ref 3.2 below) would have an adverse effect on the long-term sustainability of the HRA.

- Significant reductions in stock numbers (due to RTB sales) would also have an adverse effect on the long-term sustainability of the HRA (ref 3.3 below).

- Unforeseen increases to management and/or maintenance costs would create a risk that longer term reserves may be insufficient to sustain these additional costs over the life of the HRA business plan. It is therefore imperative that before any decision is taken on further investment in services or housing stock, the long-term view over the life of the business plan is undertaken.

- Central Government blanket policy on rents.

Table 1 - HRA Medium Term Forecast:

	HRA Medium Term Forecast				
Year	1	2	3	4	5
Description	2020.21	2021.22	2022.23	2023.24	2024.25
Income	£'000	£'000	£'000	£'000	£'000
Gross Rental Income	£24,180	£24,731	£25,277	£25,687	£26,981
Void Losses	-£233	-£238	-£243	-£247	-£260
Tenanted Service Charges	£193	£207	£208	£209	£213
Non-Dwelling Income	£168	£169	£170	£171	£174
Other Income	£183	£183	£183	£183	£183
Total income	**£24,492**	**£25,052**	**£25,595**	**£26,004**	**£27,292**
Expenditure					
General Management	-£4,228	-£4,244	-£4,269	-£4,289	-£4,375
Other Management	-£1,424	-£1,431	-£1,440	-£1,447	-£1,476
Bad Debt Provision	-£240	-£246	-£251	-£255	-£268
Responsive & Cyclical Repairs	-£6,815	-£6,885	-£6,986	-£7,081	-£7,284
Total expenditure	**-£12,707**	**-£12,806**	**-£12,946**	**-£13,073**	**-£13,403**
Capital financing costs					
Interest paid on debt	-£3,548	-£3,548	-£3,548	-£3,548	-£3,548
Interest Received	£20	£21	£17	£16	£15
Depreciation	-£3,793	-£3,840	-£3,898	-£3,936	-£4,034
Capital financing costs	**-£7,320**	**-£7,367**	**-£7,428**	**-£7,468**	**-£7,566**
Appropriations					
RCCO	-£2,566	-£13,898	-£7,590	-£7,103	-£7,479
Other appropriations	-£131	£0	£0	£0	£0
Appropriations	**-£2,697**	**-£13,898**	**-£7,590**	**-£7,103**	**-£7,479**
Net income/ (expenditure)	**£1,767**	**-£9,019**	**-£2,369**	**-£1,640**	**-£1,156**
HRA Balance					
Opening Balance	£36,817	£38,585	£29,565	£27,196	£25,556
Generated in year	£1,768	-£9,019	-£2,369	-£1,640	-£1,156
Closing Balance	**£38,585**	**£29,565**	**£27,196**	**£25,556**	**£24,400**

Table 2 - Financial Assumptions:

Key Area	Assumption	Comment
General inflation	2.00%	
Rent increase inflation	1.50% to 3.00%	Rent increases assumed in line with proposed government guidelines of CPI plus 1%
External borrowing interest rate	4.43%	Fixed Rate of interest
Minimum HRA balance	£2.5m	Recognise risk in self-financing environment

Right to buy sales	46 p.a. reducing to 40 p.a. over time	In line with sales forecast
Void rate	0.8%	In line with current position, no significant increase/decrease forecast
Bad debt provision	1.00% of gross rental income	To allow for changes under welfare reform

3. Known Commitments and Assumptions contained within the HRA Medium Term Forecast

3.1 Rents

Under the self-financing regime, it is critical that rents remain sufficient to meet the ongoing liabilities required within the HRA.

The HRA has an annual turnover of circa £24m. The sustainability and the ability for us to deliver the Council's objectives outlined above relies on maximising income whilst ensuring affordability and value for tenants and leaseholders.

Maximum rent levels are governed by Government requirements for existing tenants and for newly developed homes under the Rent Standard (regulated by the Regulator of Social Housing). This applies to all local authorities and the Regulator will undertake monitoring to ensure its adoption.

Since 2001, rents for properties let at '**social rent'** have been set based on a formula set by government. This creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. An aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties.

In 2011, the government introduced '**affordable rent**' which permits rents (inclusive of service charges) to be set at up to 80% of market rent (inclusive of service charges). On all newly acquired homes, the Council will charge Affordable Rents.

A decision in respect of rents for 2021/22 is presented to this meeting as a separate agenda item. The HRA medium term forecast for rents reflects the recommendation that government policy is followed, setting rents at CPI + 1% for the next four years, therefore providing some rental certainty in the medium to long term. (The CPI rate is taken from the September before each financial year. The rate was 0.5% as at September 2020 therefore the proposed rent increase for 2021/22 is 1.5%).

3.2 Non-payment of Rent

Non-payment of rent reduces the income to HRA, under the old subsidy system, non-payment of rent was protected because the subsidy calculation included an allowance for the non-payment of rent in the annual settlement. However, under self-financing, this risk has transferred to the HRA.

This risk is further compounded by the introduction of the Government's legislation on Welfare Reform, specifically the changes to under occupancy rules and Universal Credit.

Under Occupancy is having more bedrooms than are necessary for the household. If a household is deemed as under-occupying, there will be a reduction in Housing Benefit/Universal Credit. The amount allowed for rent and any service charges will be reduced by:

- 14% for under-occupancy by one bedroom
- 25% for under-occupancy by two bedrooms or more

This results in the rent and service charge not covered by benefit needing to be paid by the tenant, increasing the risk of non-payment.

Universal Credit was rolled out in November 2018. Previously, rent rebates were applied directly to the tenant's rent account with the tenant paying any net balance. Under Universal Credit, rent rebate is paid directly to the tenants who have the responsibility to pay the full rent themselves to the Council.

A bad debt provision is set in the 30-year business plan, calculated based on factors around aged debt, and is shown in the medium term forecast in Table 1 above.

3.3 Stock Additions/Reductions

Rental income is the main source of income to the HRA and rent loss could seriously affect its sustainability. Future decisions regarding changes to the stock need to have regard for the impact on future rental streams.

Planned stock reductions and additions have been accounted for in the medium term forecast as follows:

- 46 right to buy sales per annum based on prior year averages.
- 22 new build properties at Davies Avenue, Sutton in Ashfield scheduled for completion in August 2022.
- 9 new build properties at various infill sites in Sutton in Ashfield scheduled for completion November 2021.
- 11 new build properties at Hucknall Garage Sites scheduled for completion during Spring 2022.
- 17 new build properties at Maun View, Sutton in Ashfield scheduled for completion during Winter 2022.

Other possible projects for 16 potential new properties at various infill sites around Kirkby and Hucknall are currently in the feasibility stage are not sufficiently defined to be accounted for in the medium term plan.

3.4 Management and Maintenance costs

A transformation review of the repairs service has incorporated consideration of role changes and investment in technology including a more customer centric, customer responsive and productive housing repairs function, that being a mobile Housing Repairs solution incorporating a repairs module, associated licences, handheld devices and Dynamic Resource Scheduler (DRS).

The review identified the opportunity for efficiency gains as shown in Table 3.

Table 3 - Efficiency Gains from the transformation review of repairs service:

	2020/21	2021/22	2022/23	2023/24	2024/25
HRA	£	£	£	£	£
Employee Costs	-29,000	-36,000	-43,000	-43,000	-43,000
Car allowance	-10,000	-10,000	-10,000	-10,000	-10,000
Sub-contractor costs	-60,000	-90,000	-90,000	-90,000	-90,000
Net position	-99,000	-136,000	-143,000	-143,000	-143,000

These savings are built into the HRA business plan.

3.5 Inflation

Inflation has been set at September's CPI rate of 0.5% for 2021/22, 2022/23 and 2023/24 and at 2% for the remaining years of the medium term forecast.

3.6 Capital Expenditure

The capital expenditure incorporated within the medium term forecast includes all items included in the current HRA Capital Programme as shown in table 4 below.

Table 4 - HRA Capital Programme 2020 to 2025:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
HOUSING REVENUE ACCOUNT						
Major Works to Stock	**4,638**	**11,763**	**11,175**	**11,125**	**11,175**	**49,877**
Other Housing Revenue Account Schemes						
Sutton Affordable Housing developments - Infill Sites	730	730	0	0	0	**1,460**
Investment in New or Existing Dwellings	1,595	1,000	1,000	1,000	1,000	**5,595**
Davies Avenue Housing Project	51	2,810	0	0	0	**2,861**
Hucknall Affordable Housing Developments - Infill Sites	0	1,750	0	0	0	**1,750**
Maun View Sutton-in-Ashfield	0	2,606	0	0	0	**2,606**
Housing Vehicles	700	0	365	0	92	**1,157**
Other minor projects	173	80	80	40	40	**413**
Sub Total	**3,249**	**8,976**	**1,445**	**1,040**	**1,132**	**15,842**
Total Housing Revenue Account	**7,887**	**20,739**	**12,620**	**12,165**	**12,307**	**65,719**

The major repairs work continues to be funded from the Major Repairs Reserve, into which the HRA makes an annual contribution. The 30-year stock condition survey refresh that was undertaken in 2018 is used to forecast the expenditure required over the next 30 years. The 2020/21 is a low figure due to the Covid-19 restrictions delaying the major works programme team commencing work with a new five-year delivery partner from April. This has pushed some of the planned programme back into 2021/22. This has been reported through the in-year Cabinet budget monitoring reports.

The additional expenditure required for development and regeneration is predominantly funded from HRA reserves, hence the reduction in balances over the medium term. The remainder is being met from capital receipts and grants.

For all development and regeneration housing schemes a project appraisal is undertaken to assess if over the longer term (maximum of 40 years) the income stream generated will replenish the reserve balances used to fund the scheme. Only if this is the case are schemes approved.

The investment in new or existing dwellings scheme is financed 30% from additional retained RTB receipts and 70% is match funded from the HRA reserves.

The additional RTB receipts are allowed to be retained under an agreement with the Secretary of State under section 11(6) of the Local Government Act 2003 under which all the receipts arising from additional RTB sales (i.e. those above the number predicted since 2012 in the self-financing settlement), but they must be used to fund the provision of replacement social housing and must be spent within 3 years. If they remain unspent at 3 years, they have to be returned to Government with interest.

Table 5 below shows the level of total required HRA investment in new or existing dwellings to enable the RTB receipts retained to date to be spent within 3 years and compares it with the total of the actual spend to 30 September 2020 and the additional budgeted spend based on the current level of approved investment in new or existing dwellings included in the capital programme and HRA medium term financial plan:

Table 5 - RTB retained receipts forecast spend position to 30 September 2023:

Quarter End Date	HRA Required New Build Expenditure	Expenditure as at 30/09/2020	Remaining Expenditure from September 2020 Capital Programme	Total Estimated Expenditure by Quarter Date	Cumulative Quarterly Shortfall	Minimum Spend between 1st October 2020 and Quarter End Date
30/09/2023	14,086,192	9,814,884	3,676,207	13,491,091	595,101	4,271,308
30/06/2023	13,781,881	9,814,884	3,426,207	13,241,091	540,790	3,966,997
31/03/2023	13,623,352	9,814,884	3,176,207	12,991,091	632,261	3,808,468
31/12/2022	12,919,194	9,814,884	2,926,207	12,741,091	178,103	3,104,310
30/09/2022	11,766,043	9,814,884	2,676,207	12,491,091	0	1,951,159
30/06/2022	11,352,225	9,814,884	2,426,207	12,241,091	0	1,537,341
31/03/2022	10,225,147	9,814,884	2,176,207	11,991,091	0	410,263
31/12/2021	9,930,132	9,814,884	1,926,207	11,741,091	0	115,248
30/09/2021	9,546,218	9,814,884	1,676,207	11,491,091	0	0
30/06/2021	8,918,584	9,814,884	1,426,207	11,241,091	0	0
31/03/2021	7,941,813	9,814,884	1,176,207	10,991,091	0	0

Table 5 indicates that actual expenditure as at 30th September 2020 has exceeded the spend requirements up to 30th September 2021. As long as future actual expenditure matches the budgeted expenditure in the capital programme, the spend requirement will be exceeded for another year to 30th September 2022.

An additional spend of £632k is required by 2022/23, being £178k additional spend by Q3 2022/23 and a further 454k by Q4 2022/23. This would require additional use of HRA reserves of £442k by 2022/23 to provide the 70% match funding.

If we have to return any retained receipts, the interest is calculated at base rate + 4%. Base rate over the last 3 years have ranged from 0.1% to 0.75%. Using the average base rate of 0.4%, for each £100k of RTB receipts returned, an interest charge of approximately £14k (£100k * 1.044 ^ 3) will be incurred. (The interest paid can be funded from capital receipts).

Further analysis of the capital programme will be undertaken in 2021/22 to evaluate the best way to deliver the funding requirements for the new affordable housing programme and the purchase of properties. This will be reported as a capital programme refresh.

3.7 Capital Charges

The interest charged on housing debt is calculated in line with the Item 8 Debit as prescribed in the Self Financing Determination of 1 April 2012. The HRA Capital Financing Requirement (HRACFR) provides the basis for the calculation. This will increase if HRA capital expenditure funded by borrowing is incurred or will decrease if debt is repaid.

The HRA reserves are funding all additional capital expenditure required in the forecast so the HRACFR remains constant throughout.

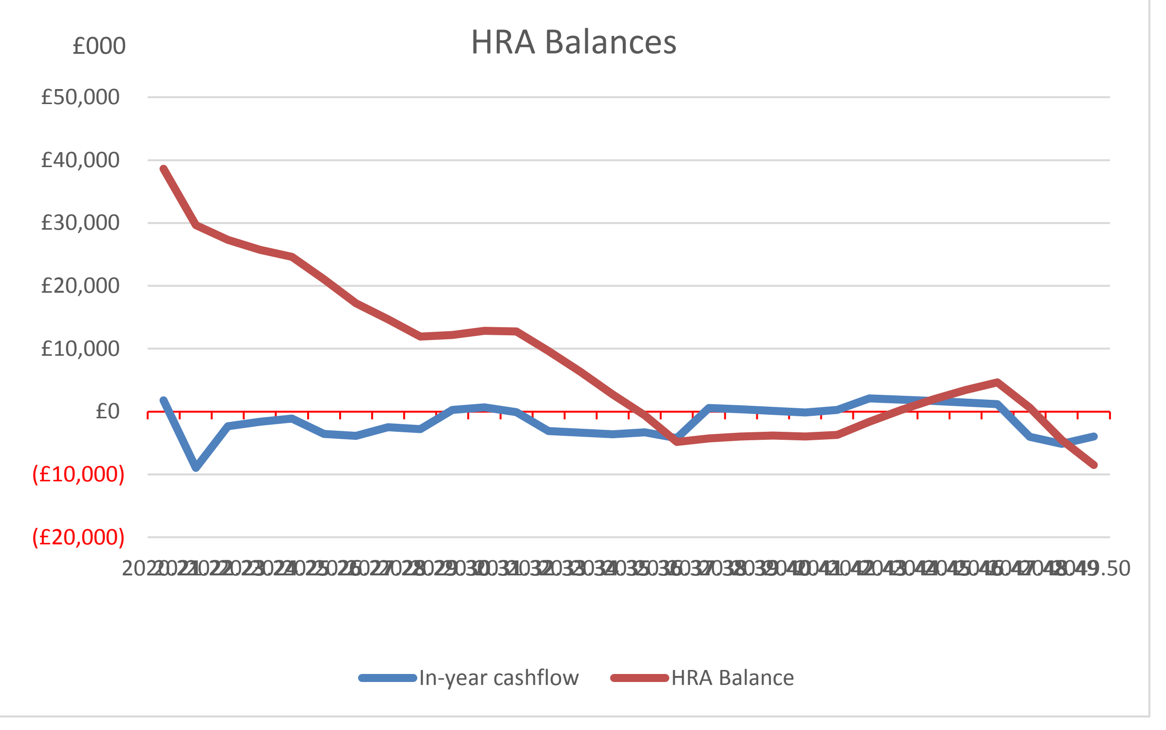
4. <u>Future Implications</u>

4.1 Social Housing Green Paper – A New Deal for Social Housing

Improving People's Homes and Reducing Bills. The Government will look at a long-term trajectory for energy performance standards across the social housing sector, with the aim of as many social rented homes as possible being upgraded to EPC Band C by 2030, where practical, cost-effective and affordable.

It is broadly estimated that the cost to achieve a Band C energy rating to the Council's housing stock is in the region of £10m. This would involve the installation of measures or a combination of measures to each property dependent upon the respective property types and their respective current thermal efficiency characteristics. This figure may vary upon detailed analysis. This has been built into the HRA 30 year business plan across the years 2024/25 to 2028/29 and the effect on the HRA balances is shown in the graph below.

Graph 1 – HRA balance as per 30-year Business Plan



4.2 The graph shows the HRA balances over the life of 30-year business plan. The HRA is estimating to hold £38m in balances by the end of this financial year. The current forecast movement in balances shows a general reduction through to 2036/37 to a deficit position of £4.8m. The main driver for this is the housing stock condition survey showing the requirements of the major works maintenance programme. This is reviewed every 5 years taking account of changes in stock levels and component life spans.

The 30 year housing business plan is refreshed each year with multiple variables effecting the outcome over the 30 years.

4.3 We await further clarification from Government on its future direction for social housing through the Social Housing White Paper published 17th November. This included proposals to introduce new primary building safety legislation and a new Decent Homes Standard, which is likely to include higher safety, quality, sustainability and energy efficiency standards. The full cost implications of the new Building Safety Regulatory system expected to be enacted in 2021 are unquantifiable at this point.

Implications

Corporate Plan:
The HRA business plan in the medium and longer term reflects the financial implications of delivering the Councils priorities for Homes and Housing as identified in Ashfield's Corporate Plan and demonstrates the plans are affordable and sustainable.

Legal:

Legal provisions are set out in the report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	N/A
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	As detailed in the report.
Housing Revenue Account – Capital Programme	As detailed in the report.

Risk:

Risk	Mitigation
The HRA becomes financially unsustainable and does not deliver its statutory obligations in relation to the provision of quality social housing.	The HRA business plan is refreshed each year. Actions are taken to influence the medium and longer term direction of the HRA balances to ensure sustainability whilst delivering its statutory obligations.

Human Resources:
None

Equalities:
N/A

Other Implications:
None

Reason(s) for Urgency
N/A

Reason(s) for Exemption
N/A

Background Papers
(if applicable)

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