Ashfield
DISTRICT COUNCIL

Report To:	**CABINET**
Date:	**29TH JANUARY 2024**
Heading:	**HOUSING REVENUE ACCOUNT MEDIUM TERM FORECAST 2023/24 – 2027/28**
Executive Lead Member:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
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

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, such standards as prescribed by the regulator of Social Housing and Housing Health and Safety Rating System (HHSRS) standard, which will also ensure they continue to generate sufficient rental income.

Should resources allow, the following can be considered:

- prioritised service delivery changes
- development and growth
- support the use of Right to Buy receipts in delivering new or existing affordable rented housing.
- debt repayment
- Carbon net zero by 2050 (it is expected this will become mandatory)

2. Current Position

2.1 At 31 March 2023, the HRA balance was £43.3m. 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 as shown in Table 1 below. This is based on known commitments and assumptions, as detailed in Table 2 below. The HRA balances are currently forecast to diminish from £43.3m to £9.1m by 31 March 2028.

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 statutory investment into the existing stock following a review of the asset maintenance requirements through a 5 yearly 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.

- Central Government blanket policy on rents.

- Significant change in management and maintenance as a result of Government Legislation and/or Regulation, such as mandatory carbon reduction targets.

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.

Table 1 - HRA Medium Term Forecast:

	Year	Year	Year	Year	Year
	2023/24	2024/25	2025/26	2026/27	2027/28
Income	£'000	£'000	£'000	£'000	£'000
Gross Rental Income	27,368	30,514	31,243	31,898	32,561
Void Losses	-303	-337	-344	-351	-359
Other Rental Income	152	162	166	169	173
Tenanted Service Charges	889	822	840	857	874
Other Income	112	120	122	125	127
Total income	**28,218**	**31,281**	**32,027**	**32,698**	**33,376**
Expenditure					
General Management	-4,915	-5,245	-5,363	-5,470	-5,579
Other Management	-1,731	-1,848	-1,889	-1,927	-1,966
Bad Debt Provision	-200	-253	-259	-264	-270
Responsive & Cyclical Repairs	-8,078	-8,697	-8,965	-9,177	-9,393
Total expenditure	**-14,925**	**-16,043**	**-16,476**	**-16,838**	**-17,208**
Capital financing costs					
Interest paid on debt	-3,548	-3,548	-3,548	-3,548	-3,548
Interest paid on 141 receipts	0	0	0	0	-252
Interest Received	1,598	722	270	61	42
Depreciation	-4,174	-4,503	-4,651	-4,778	-4,908
Total Capital financing costs	**-6,124**	**-7,329**	**-7,929**	**-8,265**	**-8,666**
Appropriations					
Direct Revenue Financing	-9,341	-17,120	-13,420	-16,858	-15,258
Total Appropriations	**-9,341**	**-17,120**	**-13,420**	**-16,858**	**-15,258**
Net income/ (expenditure)	**-2,172**	**-9,211**	**-5,798**	**-9,263**	**-7,756**
HRA Balance					
Opening Balance	43,344	41,172	31,961	26,163	16,899
Net Expenditure in year	-2,172	-9,211	-5,798	-9,263	-7,756
Closing Balance	41,172	31,961	26,163	16,899	9,144

Table 2 - Financial Assumptions:

Key Area	Assumption	Comment
General inflation	CPI 5% reducing to 2.0%.	2024/25 based on 5%, 2025/26 based on 2.25%, reducing to 2% from 2026/27 for each year after.

Rent increase inflation	7% reducing to 3.00%	Rent increases assumed in line with proposed government guidelines of rents capped at a level of CPI + 1% (7.7% assumption for 2024/25 and 3.25% for 2025/26 and 2.00% for future years thereafter.)
External borrowing interest rate	4.43%	Fixed Rate of interest. Certainty rate agreed with our Treasury Management Advisors
Minimum HRA balance	£2.5m	Recognise risk in self-financing environment
Right to buy sales	30 units p.a. reducing to 25 p.a. over time	Sales of 30 units assumed per annum between 2023 and 2027 and reducing to 25 from 2028
Void rate	1%	In line with current position, no significant increase/decrease forecast
Bad debt provision	0.83% of gross rental income	Maintaining at the current debt levels.

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 £28m (2023/24). 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 2024/25 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 a capped level of 7.7% for 2024/25 and CPI + 1% for the 2025/26, therefore providing some rental certainty in the short term. (The CPI rate is taken from the September before each financial year).

3.2 Non-payment of Rent

Non-payment of rent reduces the income to the 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 (UC).

Under-occupancy is having more bedrooms than are necessary for the number of persons in a 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.

The implementation of Universal Credit (UC) commenced in Ashfield 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. The latest update from the DWP is for the entire process of full migration to be completed nationally by December 2024. Currently we have in the region of 2,368 tenants believed to be claiming UC and 2,520 Housing Benefit claimants.

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 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 3 below.

Table 3 – HRA Capital Programme 2023-2028

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
HOUSING REVENUE ACCOUNT						
Decent Homes Schemes						
Major Works to Stock	**6,204**	**15,150**	**16,301**	**16,360**	**13,769**	**68,284**
Other Housing Revenue Account Schemes						
Afghan Resettlement Scheme	1,024	0	0	0	0	**1,024**
Retrofit Infill Properties	100	484	0	0	0	
Community Centres New Housing Scheme	423	422	0	0	0	**845**
Central Avenue New Housing Scheme	100	3,205	0	0	0	**3,305**
Investment in New or Existing Dwellings	1,501	1,501	1,501	1,501	1,501	**7,505**
Davies Avenue Housing Project - Frog Hopper Lane	40	0	0	0	0	**40**

Development of Unviable Garage Sites in Kirkby-in-Ashfield and Hucknall (Darley Avenue and Spruce Grove New Builds)	514	25	0	0	0	**539**
Housing Vehicles	368	423	487	560	644	**2,482**
Hucknall Infill Sites	0	0	0	0	0	**0**
Maun View Sutton-in-Ashfield	942	53	0	0	0	**995**
Northern View, Sutton-in-Ashfield	0	3,583	0	0	0	**3,583**
Warwick Close, Kirkby-in-Ashfield	4,628	91	0	0	0	**4,719**
Other Minor Projects	148	93	53	53	54	**401**
Grand Total	**9,788**	**9,880**	**2,041**	**2,114**	**2,199**	**25,438**
Total Housing Revenue Account	**15,992**	**25,030**	**18,342**	**18,474**	**15,968**	**93,722**

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. An updated stock condition survey is expected in 2024.

The additional expenditure required for development and regeneration is predominantly funded from HRA reserves, hence the reduction in balances over the medium term (Table 1). 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 schemes is financed 40% from additional retained RTB receipts and 60% is match funded from the HRA reserves.

The RTB receipts can 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) are retained, but they must be used to fund the provision of replacement social housing and must be spent within 5 years. If they remain unspent at 5 years, they must be returned to Government with interest.

Table 4 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 5 years and compares it with the total of the actual spend to 31 March 2023 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 4 - RTB retained receipts forecast:

Year	Expected Qualifying Cumulative New Build Expenditure £'000	Estimated Required Cumulative New Build Expenditure £'000	Difference £'000
31-Mar-29	£19,710	£21,169	-£1,459
31-Mar-28	£18,710	£19,132	-£422
31-Mar-27	£17,209	£14,846	£2,363

31-Mar-26	£15,708	£13,065	£2,643
31-Mar-25	£14,207	£11,651	£2,556
31-Mar-24	£12,706	£9,102	£3,604

Table 4 indicates the expected position of expenditure at 31st March 2024 will exceed the spend requirements up to 31st March 2024. If future actual expenditure matches the budgeted expenditure in the Capital Programme, the spend requirement will be exceeded up to 31st March 2027. This means that based on current forecasts we would not need to repay RTB income to the Government until 2028. This position is closely monitored to ensure maximum benefit is retained within the HRA.

Further analysis of the Capital Programme will be undertaken in future years 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.

3.4 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 currently funding all additional capital expenditure required in the forecast, so the HRACFR remains constant throughout.

3.5 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:

- 30 right to buy sales per annum based on the changes in the last three years.
- 20 new build properties at Warwick Close, Kirkby in Ashfield scheduled for completion during January 2024.
- 16 new build properties at Central Avenue, Kirkby in Ashfield scheduled for commencement during summer 2024.

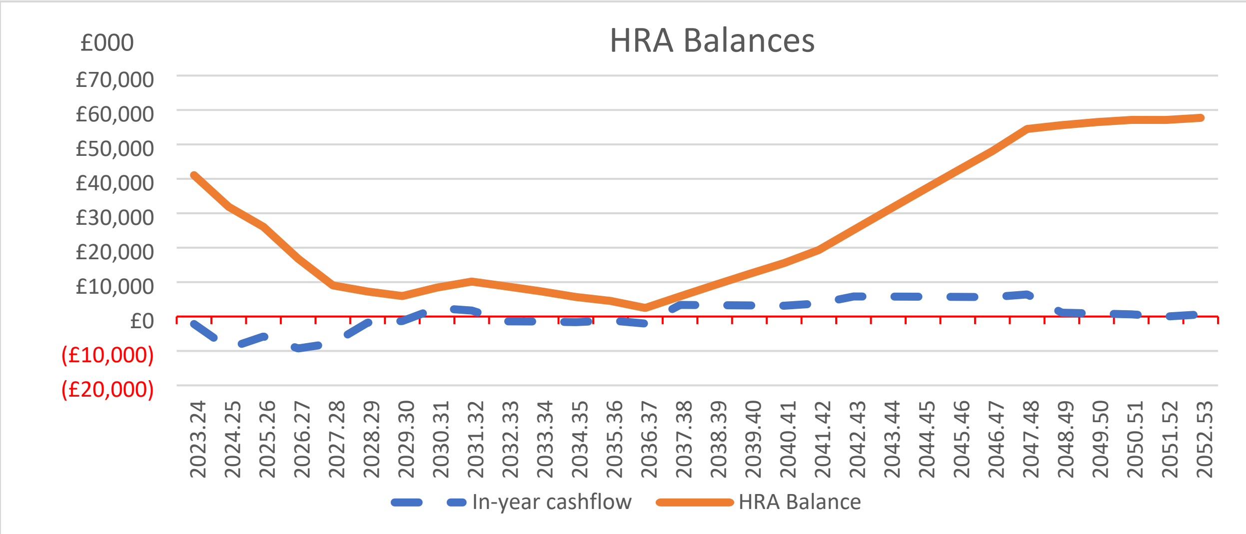
As future new build developments are brought forward there will become a point in time for the HRA to borrow the finance required for the capital expenditure.

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 has been built into the HRA 30-year business plan across the years 2026/27 to 2029/30 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 the 30-year business plan. The HRA is estimating to hold £41m in balances by the end of this financial year. The reduction in balances since March 2023 is due to new housing schemes being delivered and paid for during 2023/24. The current forecast movement in balances shows a general reduction through to 2036/37 to a surplus position of £2.5m in that year. 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 next full survey will take place in 2024 and will lead to a revaluation of capital expenditure taking into account new legislative requirements and inflationary cost pressures (this will have a negative effect on the plan).

Balances have increased since last year due to the underspend caused by the collapse of the Council's major works contractor (J Tomlinson Ltd) in September 2023. The retendering effects of the contract will have a negative effect on the plan due to catch up works and new inflation related pricing.

The graph above also assumes that a 7.7% rent increase, as outlined in Government legislation, is agreed by Cabinet for 2024/25. This also only allows for another 22 new build units to be developed.

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

4.3 Social Housing (Regulation) Act 2023

The Act which received Royal Ascent on 20th July 2023 followed the Social Housing White Paper – Charter for Social Housing residents' paper which was published by the Ministry of

Housing, Communities and Local Government (MHCLG) (now known as Department for Levelling Up, Housing and Communities) on 17th November 2020. It is the follow up to the Social Housing Green Paper that was published in August 2018, both of which are part of the Government's response to the Grenfell Tower tragedy and the Hackitt Review of building safety and fire safety.

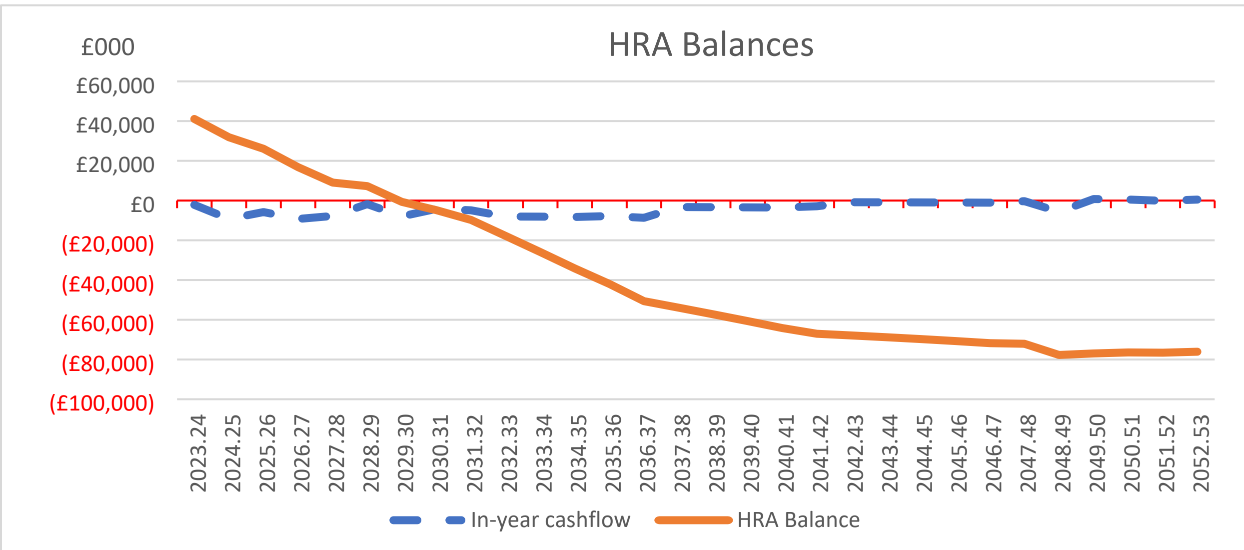
An action plan has been created and was reported to Cabinet in December 2021, a further update was presented in June 2022 and a further update is presented to this meeting as a separate agenda item. To date the action plan has required two new posts to be established and built into the 30-year business plan. This action plan will continue to be monitored and be developed through the Operations Departmental Management Team (DMT) overseen by the Strategic Leadership Team (SLT) and Executive Lead Member for Operations. The action plan highlights the areas within the White Paper and specific Consumer Standards that are being met and identifies gaps where service areas will need to ensure work continues to remain compliant. Further additional posts may be required once more of the regulations unfold following legislation being approved with an implementation date highly likely to be from the start of the 2024/25 financial year.

4.4 Carbon Net Zero by 2050

Under legislation passed in 2019, the UK is legally obliged to reach net-zero carbon emissions by 2050. There are a vast variety of factors that could influence how much it will eventually cost to retrofit the entire housing stock to zero-carbon standards. The age and composition of stock, existing maintenance plans and the cost of technology are all factors going forward.

The graph below shows what impact it would have on the 30-year business plan to retrofit the housing stock. The costings have been averaged across 2029/30 to 2049/50 to give some indication on the financial impact on the 30-year business plan. The cost per property is based on indicative average costs across the housing sector based on a report from Inside Housing. (This does not include any inflationary adjustments.) This shows that without Government funding the carbon net zero target cannot be met within the current self-financing model of the HRA.

Graph 2 – HRA balances based on £20,000 costs per property for carbon net zero by 2050.



4.5 The White Paper also proposes the development of a new Decent Homes Standard which will be out for consultation in the early part of this year. The exact nature of this new standard is unknown and is therefore un-costed. Any additional expenditure required to meet this new standard would be on top of the carbon net zero expenditure illustrated in Graph 2 above.

Implications

Corporate Plan:

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

Legal:

Relevant legislative requirements are set out in the main body of the report. [RLD 01/02/2024]

Finance: Financial implications are set out within this report. [PH 22/12/2023].

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

Environmental/Sustainability:

N/A

Equalities:
None

Other Implications:
N/A

Reason(s) for Urgency
N/A

Reason(s) for Exemption
N/A

Background Papers
HRA 30 Year Business Plan model

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