Ashfield
DISTRICT COUNCIL

Report To:	**CABINET**
Date:	**17 FEBRUARY 2025**
Heading:	**HOUSING REVENUE ACCOUNT MEDIUM TERM FORECAST 2024/25 – 2028/29**
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 (RTB) 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 2024, the HRA balance was £43.9m. 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 £49.7m to £1.9m by 31 March 2029, however it must be noted that there is likely to be slippage within the Capital Programme which will affect this forecast. This forecast will be reviewed over time as assumptions change.

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 3.5 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
	2024/25	2025/26	2026/27	2027/28	2028/29
Income	£'000	£'000	£'000	£'000	£'000
Gross Rental Income	30,333	31,324	32,762	33,489	34,237
Void Losses	-429	-443	-462	-472	-483
Other Rental Income	134	137	140	142	145
Tenanted Service Charges	922	936	955	968	986
Other Income	99	101	103	104	107
Total income	**31,059**	**32,055**	**33,498**	**34,231**	**34,992**
Expenditure					
General Management	-4,554	-4,632	-4,736	-4,807	-4,903
Other Management	-1,817	-1,860	-1,918	-1,957	-2,010
Bad Debt Provision	-200	-207	-216	-221	-226
Responsive & Cyclical Repairs	-8,778	-9,045	-9,389	-9,639	-9,947
Total expenditure	**-15,349**	**-15,744**	**-16,259**	**-16,624**	**-17,086**
Capital financing costs					
Interest paid on debt	-3,548	-3,548	-3,548	-3,548	-3,548
Interest Received	2,011	949	379	65	45
Depreciation	-4,691	-4,546	-4,791	-5,030	-5,274
Total Capital financing costs	**-6,228**	**-7,145**	**-7,960**	**-8,513**	**-8,777**
Appropriations					
Direct Revenue Financing	-3,661	-30,715	-20,690	-16,677	-16,372
Total Appropriations	**-3,661**	**-30,715**	**-20,690**	**-16,677**	**-16,372**
Net income/ (expenditure)	**5,821**	**-21,549**	**-11,411**	**-7,583**	**-7,243**
HRA Balance					
Opening Balance	43,876	49,697	28,148	16,737	9,154
Net Expenditure in year	5,821	-21,549	-11,411	-7,583	-7,243
Closing Balance	49,697	28,148	16,737	9,154	1,911

Table 2 - Financial Assumptions:

Key Area	Assumption	Comment
General inflation	CPI 2.25% reducing to 2.0%.	2025/26 based on 2.25%, reducing to 2% from 2026/27 for each year after.
Rent increase inflation	2.7% increasing to 3.00%	Rent increases assumed in line with proposed government guidelines of rents capped at a level of CPI + 1% (2.7% for

		2025/26 and 3.00% for 2026/27 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	15 units p.a.	Sales of 15 units assumed per annum
Void rate	1%	In line with current position, no significant increase/decrease forecast
Bad debt provision	0.66% 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 £30m (2024/25). 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 2025/26 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 2.7% (CPI + 1%) for 2025/26 (the CPI rate is taken from the September before each financial year). Rents policy for future years is currently out for consultation with the current Government.

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 DWP plans to move all legacy benefit claimants to Universal Credit (UC) by March 2026, completing the UC rollout and closing all legacy benefits by this date. Currently we have in the region of 2,930 tenants believed to be claiming UC and 2,020 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.

<u>Table 3 – HRA Capital Programme 2024-2029</u>

	2024/25 £'000	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**Total £'000**
HOUSING REVENUE ACCOUNT						
Decent Homes Schemes						
Major Works to Stock	**5,461**	**24,873**	**18,296**	**16,794**	**16,487**	**81,911**
Other Housing Revenue Account Schemes						
ACRS	550	0	0	0	0	**550**
Retrofit Infill Properties	514	64	0	0	0	**578**
Community Centres New Housing Scheme	1008	400	0	0	0	**1,408**
Central Avenue New Housing Scheme	1726	1,600	45	0	0	**3,371**
Investment in New or Existing Dwellings	1,501	1,000	788	788	788	**4,865**
Davies Avenue Housing Project - Frog Hopper Lane	25	0	0	0	0	**25**

Development of Unviable Garage Sites in Kirkby-in-Ashfield and Hucknall (Darley Avenue and Spruce Grove New Builds)	25	0	0	0	0	**25**
Housing Vehicles	427	487	560	644	0	**2,118**
Hardwick Lane, Sutton-in-Ashfield	1238	8100	0	0	0	**9,338**
Maun View Sutton-in-Ashfield	53	0	0	0	0	**53**
Fairhaven, Kirkby-in-Ashfield	525	1,660	3,310	0	0	**5,495**
Warwick Close, Kirkby-in-Ashfield	88	0	0	0	0	**88**
Other Minor Projects	147	83	53	54	54	**391**
Other HRA Schemes Total	**7,827**	**13,394**	**4,756**	**1,486**	**842**	**28,305**
Total Housing Revenue Account	**13,288**	**38,267**	**23,052**	**18,280**	**17,329**	**110,216**

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 2025.

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 retained RTB guidance now includes the increased flexibilities on the use of RTB receipts which were announced on 30 July 2024 for the two financial years 2024-25 and 2025-26:

- The maximum permitted contribution from RTB receipts to replacement of affordable housing has increased from 50% to 100%.
- RTB receipts will be permitted to be used with section 106 contributions.
- The flexibilities will be in place for an initial 24 months, subject to review.

Therefore, expected to return in 2026-27 the investment in new or existing dwellings schemes will be financed 50% from retained RTB receipts and 50% matched funding from the HRA reserves. (RTB receipts cannot be used in conjunction with other Government Grants).

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 2024 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.

<u>Table 4 - RTB retained receipts forecast:</u>

Year	Expected Qualifying Cumulative New Build Expenditure £'000	Estimated Required Cumulative New Build Expenditure £'000	Difference £'000
31-Mar-30	£18,325	£18,115	£210
31-Mar-29	£17,536	£16,315	£1,221
31-Mar-28	£16,748	£15,121	£1,627
31-Mar-27	£15,961	£12,112	£3,849
31-Mar-26	£15,173	£10,688	£4,485
31-Mar-25	£14,173	£10,122	£4,051

Table 4 indicates the expected position of expenditure at 31st March 2025 will exceed the spend requirements up to 31st March 2025. If future actual expenditure matches the budgeted expenditure in the Capital Programme, the spend requirement will be exceeded up to 31st March 2030. This means that based on current forecasts we would not need to repay RTB income to the Government. 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:

- RTB sales are expected to reduce from 2025 onwards after the 2024 Autumn Budget announcement where discounts for purchases through the Right to Buy scheme will revert to pre-2012 levels and will be more reflective of local housing markets. An early estimate is that this will reduce the estimated right to buy figure by 50%.

- 40 new build properties at Hardwick Lane, Sutton in Ashfield scheduled for completion during November 2026.

- 20 new build properties at Fairhaven site, Kirkby in Ashfield scheduled for commencement at the end of 2025.

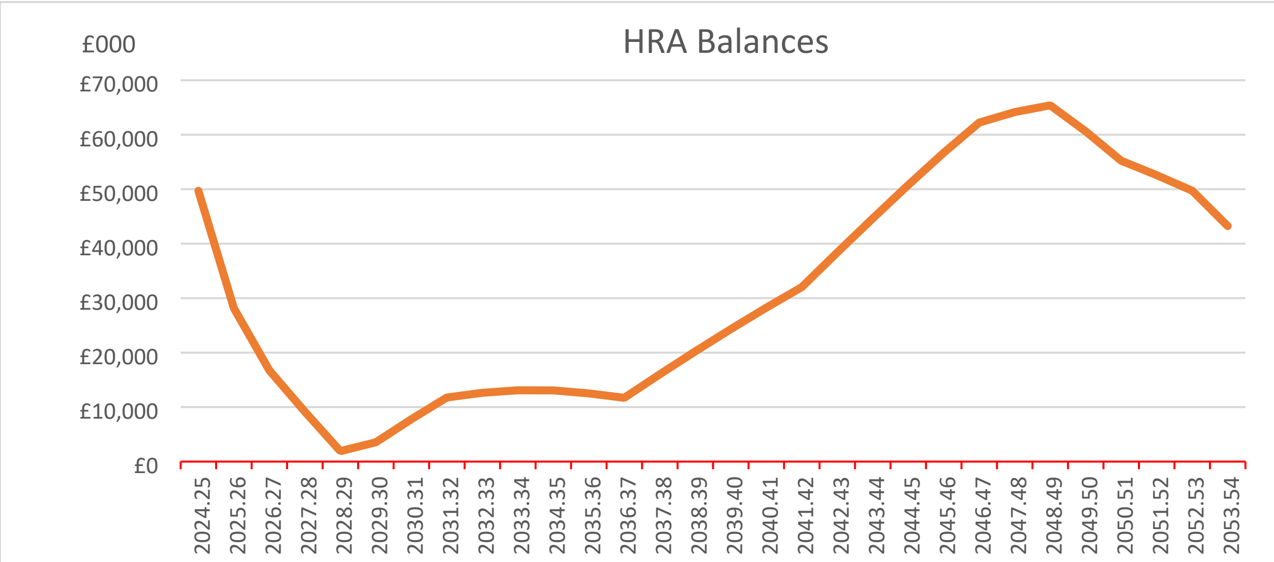
As future new build developments are brought forward there will become a point in time for the HRA to borrow the finance required for the capital expenditure.

4. Future Implications

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 maximising the number of social rented homes 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 £49.7m in balances by the end of this financial year. The current forecast movement in balances shows a general reduction through to 2028/29 to a surplus position of £1.91m in that year. The main driver for this is the new build housing development program and the requirements of the major works maintenance programme. This shows the importance of the 30-year stock condition survey refresh, that was last undertaken in 2018, is used to forecast the expenditure required over the next 30 years. This survey takes account of changes in stock levels and component life spans, the next full survey will take place in 2025 and will lead to a revaluation of capital expenditure considering new legislative requirements and inflationary cost pressures (this will have a negative effect on the plan).

The graph above also assumes that a 2.7% rent increase, as outlined in Government legislation, is agreed by Cabinet for 2025/26.

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) on 17th November 2020. This 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 continues with six monthly updates being provided to Cabinet, the latest being presented to this meeting as a separate agenda item. To date additional resources have been added to the establishment to assist with maintaining regulatory compliance and further additional staffing resources are currently being considered to assist with the handling of increasing complaint volumes (largely due to increased awareness) and the pending implementation of Awaab's Law. This action plan will continue to be monitored and be developed through the Housing Regulation Team overseen by the Strategic Leadership Team (SLT) and Executive Lead Member for Social Housing & Assets. The action plan highlights the areas within the Act and specific Consumer Standards that are being met and identifies gaps/future new burdens where service areas will need to ensure work continues to remain compliant. Further additional posts may be required once further regulations unfold as the regulatory regime develops and Consumer Standards are developed/introduced. The regulatory regime is also now self-funding, resulting in the Council being liable for the payment of an annual fee to the Regulator of Social Housing circa £44,000.

We are currently awaiting the outcomes of consultations on the introduction of Awaab's Law and the new Consumer Standard on Professionalism and Professional Qualifications, which are likely to result in increased expenditure for the HRA. The requirements/implications of Awaab's Law still remain unknown, however, it is expected that hazards identified within the Council's housing stock will have strict deadlines for inspection, reporting of actions required including timescales and completion of works and a requirement to temporarily decant vulnerable tenants into alternative accommodation until the hazard is resolved. Consultation on the new Decent Homes Standard, which will set a new standard for stock condition, is expected to commence in the near future, this is likely to set new requirements which will need to be incorporated into the major works programme and 30-year business plan.

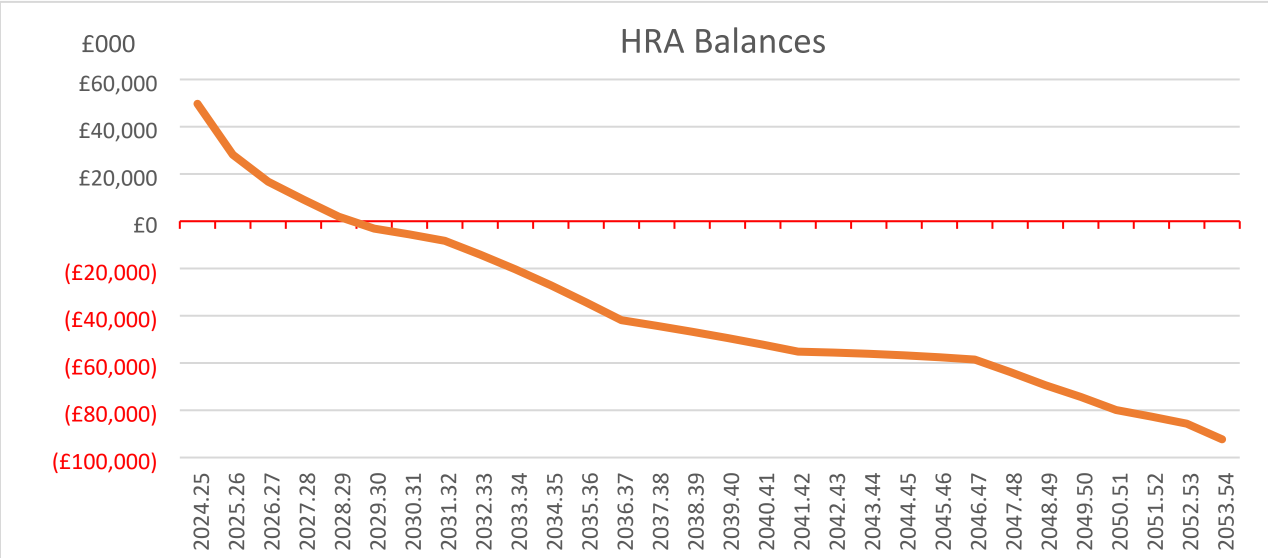
4.4 Carbon Net Zero by 2050

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 the 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.

Ambition to net zero to support the Government mandatory target for the UK as a whole to be Net Zero by 2050. However this is currently not affordable without additional funding to invest in the necessary changes. Graph 2 illustrates a scenario based on current estimates of indicative cost and no additional funding to make the necessary changes.

The graph below shows the 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.



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 28/01/2025]

Finance: Financial implications are set out within this report. [PH 29/01/2025]

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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