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| **Agenda Item No:** | 7 |
| **Report To:** | Cabinet |
| **Date of Meeting:** | 8 December 2016 |
| **Report Title:** | Housing Revenue Account (HRA) Business Plan 2016-2046 |
| **Report Author & Job Title:** | Jo Stocks, Senior Accountant<br>Sharon Williams, Head of Housing |
| **Portfolio Holder Portfolio Holder for:** | Cllr. P N H Clokie & Cllr N J Shorter<br>Portfolio Holder for Housing & Home Ownership & Portfolio Holder for Finance, Budget and Resource Management |


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| **Summary:** | This report provides an annual update to Members on the financial projections associated with the HRA Business Plan.<br>Work has been undertaken to review the cost base of the HRA and model for the life of the business plan. The Plan has been updated to allow for the latest planned maintenance schedule, newly approved capital schemes, and the outcome of the Housing Services Review.<br>Overall the plan remains affordable and there are no significant revisions from the version prepared in 2015 (Cabinet November 2015). |


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| **Key Decision:** | No |
| **Significantly Affected Wards:** | None |
| **Recommendations:** | **The Cabinet is asked to:-** |

I. **Review and agree the updated HRA Business Plan and financial projections.**
II. **Agree the updated HRA priorities, set out at paragraph 11**
III. **Note that Overview and Scrutiny (O&S) are required to review the HRA Business Plan financial projections as part of the budget scrutiny process.**

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| **Policy Overview:** | The Council is required to have a 30 year business plan for the Housing Revenue Account (HRA). With effect from November 2013 members agreed that Cabinet would receive an annual update of the business plan position. |
| **Financial Implications:** | This paper provides an update to the financial position of the HRA over the next 30 years. The financial model |

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| | forecasts that the HRA business plan continues to be a robust and viable business and is able to deliver its key priorities.<br><br>The financial model is a tool for testing existing priorities, the impact of changes in Government policies and changes in key business sensitivities such as inflation to ensure that Ashford's plans remain affordable. It also ensures that the HRA does not exceed its debt cap with its expenditure plans in line with Government rules. |
| **Legal Implications** | |
| **Equalities Impact Assessment** | As part of the final budget reported to Cabinet in February. |
| **Other Material Implications:** | |
| **Exempt from Publication:** | **No** |
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# Report Title: Housing Revenue Account Business Plan 2016-2046

1. This is the annual update of the HRA Business Plan financial projections. This report updates the position for the period 2016 to 2046. The Housing review proposals, also a report the agenda, are built into this plan.

## Introduction and Background

2. The Council is required to have a 30 year Business Plan for the HRA. To support this a 30 year financial model, sourced from the Chartered Institute of Housing, is maintained, which forecasts the financial position, capital requirements and cash flow for the HRA and allows the long term viability of the service to be modelled and tested.

3. As part of the national reform of the HRA subsidy system, in March 2012 the Council completed the buyout of the HRA from the housing subsidy system for £113.7m. This allowed the Council to take on a proportion of the national housing debt in return for the abolition of the Housing Subsidy System and keep all future income receipts. Total HRA debt is currently £123m, an average of approximately £25,000 per property.

4. The HRA buyout enabled the council to focus on its key priorities for council housing and at the July 2012 Cabinet meeting agreed the following HRA priorities:

   a. Continue to build new homes for council tenants and consider that future new build by the council be funded from outside of the HRA where funding is not available.

   b. Plan to rebuild/remodel the council sheltered accommodation across the borough over a 15 year period.

   c. Decent Homes Standard to be maintained over the 30 year Business Plan cycle.

   d. Additional sums to be set aside to spend on adaptations in accordance with the details of the debt calculation.

   e. Develop specific and agreed neighbourhood improvements across the borough.

5. This report sets out a set of updated priorities to reflect the changing financial landscape and the council's aspirations in delivering additional units, improving and maintaining its housing schemes for older people.

6. The HRA is a ring fenced, self-financed operation funded by council tenants, through rent, not Council Tax. It manages, maintains and repairs just over 4,700 properties. It also monitors and funds the Private Finance Initiative (PFI) for the regeneration of Stanhope in South Ashford.

## Significant changes

7. As a result of the 1% rent reduction imposed by Government, a cost reduction programme was implemented. Savings of £2.5m were achieved in 2015/16, many of which have been carried forward over the life of the business plan.

8. In addition to this, the Head of Housing has undertaken a service review of Housing to generate further savings and efficiencies. The outcome of this review has been incorporated into the Business Plan model, the detail of which is reported elsewhere on the agenda. If the revised structure in the Housing review has not been agreed then the assumptions in the plan cannot be delivered and officers would have to revise the model accordingly.

## Modelling Assumptions

*Reviewed Priorities for the HRA Business Plan*

9. It is recommended that the priorities originally agreed in July 2012 are updated as follows:

   a. Continue to build/acquire new homes for a range of tenures and needs, including shared ownership and homes for rent; utilising all available internal and external funding streams, as appropriate

   b. Plan to rebuild/remodel the council sheltered accommodation across the borough to provide high standard accommodation for older and vulnerable persons, including ex-forces applicants, from the borough

   c. Decent Homes Standard to be maintained over the 30 year Business Plan cycle

   d. Provide an adequate programme of disabled adaptations to meet the needs of disabled tenants within a reasonable timeframe

   e. Identify opportunities to remodel existing stock to cater for the needs of homeless people.

*Projects*

10. A number of projects have been incorporated into the plan, some of which have already received Cabinet approval, and others that are in the early planning stages, and will be reported to Cabinet in due course:

    - Farrow Court
    - Danemore
    - Affordable Homes (contracts 1&2)
    - Poplars
    - Oak Tree Road
    - Court Wurtin

11. Assumptions have also been included for the redevelopment/refurbishment of the sheltered housing schemes at East Stour Court and Oakleigh House, although these estimates are in the formative stages at this time.

*Inflation Forecast and Impact*

12. Movements in inflation are a key sensitivity in any financial modelling and the HRA financial model applies a number of inflation assumptions to costs and income items in the budget. Historically rent levels have increased by an inflation plus Government formula, however between 2016/17 to 2019/20

social housing rents are to be reduced by 1% per annum (excluding affordable housing).

13. From 2020/21 it has been assumed that rents will be increased by Consumer Price Inflation (CPI) +1% in line with Government guidelines. To date Government has not given any information on the position post 2020, if changes are introduced that affect the rent increase assumptions the model would need to be revisited at that time.

14. Inflation assumptions have been updated in the model to reflect August 2016 figures as reported by the Office of National Statistics.

*Interest Rates and amount set aside to repay debt or invest in future capital projects.*

15. Interest rates are a potential risk to the model if debt is not paid off in line with the Treasury portfolio timetable. However it has been assumed that rates will remain at 0.25% for the remainder of 2016/17, increasing to 0.5% partway through 2018/19, slowly increasing up to 3% by 2041/42.

16. The HRA debt repayment profile, which is part of the treasury portfolio, remains unchanged with the maturing fixed debt due between March 2017 and March 2021, which total £13 million. Members will be able to review this profile of debt repayment if and when new capital plans come forward for review.

17. If the debt repayment were to be extended, without investing in new projects there would be a significant risk that the HRA would hold significant cash balances, as well as continuing to have outstanding loans. This would create a cost of carry, whereby investment returns are lower than the corresponding cost of holding debt; this could become an issue if investment returns remain low for a significant period.

18. Provided that interest rates remain within forecast levels it is expected that any potential issues arising from interest rates will be manageable, however it may mean that some projects will need to be delayed in order to absorb the additional cost.

*Rent Conversions*

19. It was agreed by Members (Cabinet April 2014) that for three years from April 2015 void 2 bed flats and 2/3 bedroom houses (approximately 80 properties per annum) will be converted from social rents to affordable rents. The original forecast was conservative, however we have seen the revenue earned from conversions is higher than originally estimated, leading to an improved base budget position, and an increase in revenue over the life of the Business Plan, while keeping expenditure at the same level.

20. It should be noted that conversions from social rents to affordable rents can only be applied where the council is in receipt of grant funding, for new affordable housing, from the Homes & Communities Agency.

*Welfare Reform*

21. A continuing risk for the Business Plan is the impact of Welfare Reform even though Ashford's statistics to date continue to show high rent collection levels with low arrears. In developing the Business Plan the provision for bad debts has been revised to a lower level of 0.25%, to reflect actual collection rates. It is anticipated that the work officers are doing with tenants will minimise the impact of welfare changes, however it is important to

acknowledge potential issues as a result of the roll out of the reform agenda.

*General Fund Recharges*

22. The HRA is subject to a statutory ring fence which limits the costs that can be recharged into the Housing Revenue account.

23. Currently the HRA is charged approximately £2,067,000 of General Fund costs in accordance with CIPFA guidance which is included in the financial forecast. As part of the financial planning for both the HRA and General Fund the level and appropriateness of the recharges is examined and tested on a regular basis.

*Other assumptions included in the model*

24. The Government have now confirmed that the 1% reduction on social housing rents will also apply to sheltered housing, with effect from 1 April 2017.

25. The Supporting People funding received from KCC is expected to reduce by 80% from 2017/18 and remain at that low level for the remainder of the plan.

26. The capital maintenance costs have been increased by 10% from year two of the plan to allow for a contingency sum to address unforeseen major works, in the light of the significant reductions in the Planned Maintenance programmes.

27. Disabled adaptations were increased to £605,000 in 2016/17 to clear meet the high demand, this increased level of investment has been maintained for the life of the Business Plan with the aim that we can deliver required adaptations within six months .

28. The model continues to maintain a minimum reserve balance of £1 million, to meet approved priorities, and focuses any surplus resources to either invest in new income streams or to repay the housing debt and reduce the Housing Capital Financing Requirement (HRA CFR), which is a measure of indebtedness.

29. Right to Buys have increased during 2016/17, with 31 having taken place this year to date, it is expected that right to buys will continue at this level for the next few years.

## Capital Receipts

30. Capital receipts received for the sale of a council property, under the Right to Buy (RTB) scheme, have been built into the financial model. Going forward it is anticipated that any such receipts will be used to support existing capital programmes where funding becomes tight due to the loss of income growth.

31. With the announcement to extend RTB to Housing Associations the future treatment and pooling of capital receipts for both HRA's and Housing Associations is keenly awaited and will be reported in due course. As the detail has not yet been announced by Government no assumptions have been made in the model to reflect this. Officers will keep this under review as information becomes available.

32. It should be noted that capital receipts from RTB's are also applied to General Fund capital programme items, such as Disabled Facilities Grant (DFG) and community projects.

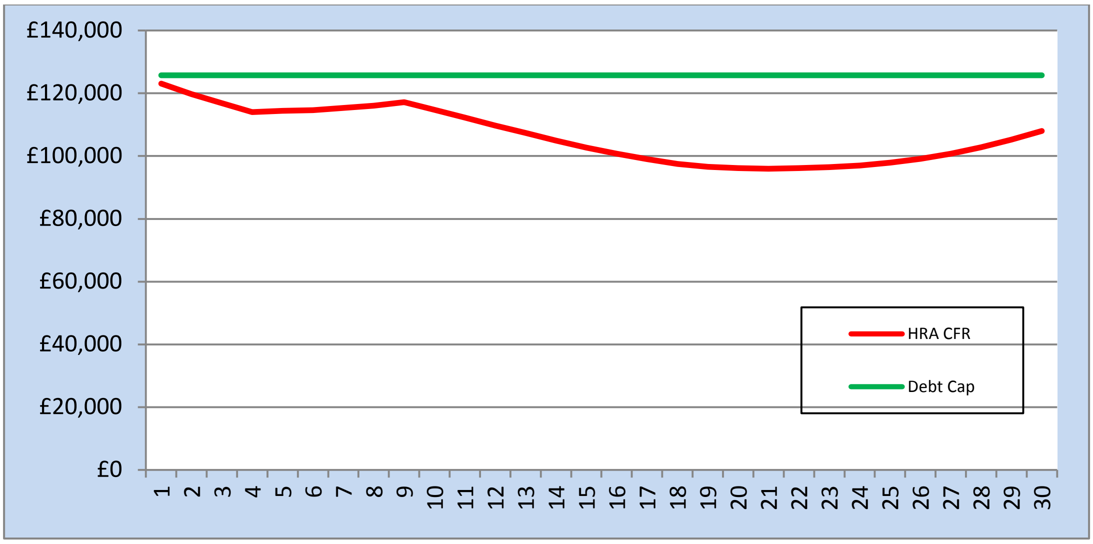
33. In May 2012 the authority was invited to sign an agreement to re-invest Right

to Buy receipts in affordable housing, known as ‘One for One Replacement’. The agreement was signed on 20 June and the Council started to retain receipts from 1 October 2012. These receipts need to be used within three years for the provisional of additional affordable housing through purchase and development of housing. If they are not used they need to be returned to the Secretary of State plus an interest charge of 4% above base.

34. In order to ensure ‘One for One’ money is utilised and not handed back to Government, with interest, the Affordable Homes Programme has incorporated the spend of these monies. This currently includes the purchase of existing street properties, Danemore and Poplars, One for One funding can account for up to 30% of the build cost per affordable unit, with the remainder funded by the HRA. Use of ‘One for One’ money is more favourable than using HCA funding, as HCA funding contributes less than 30%.

## Modelling HRA Debt and Capital Resources

### Graph 1: Amount of HRA Debt held (values shown in £000’s, year 1 – 2016/17)

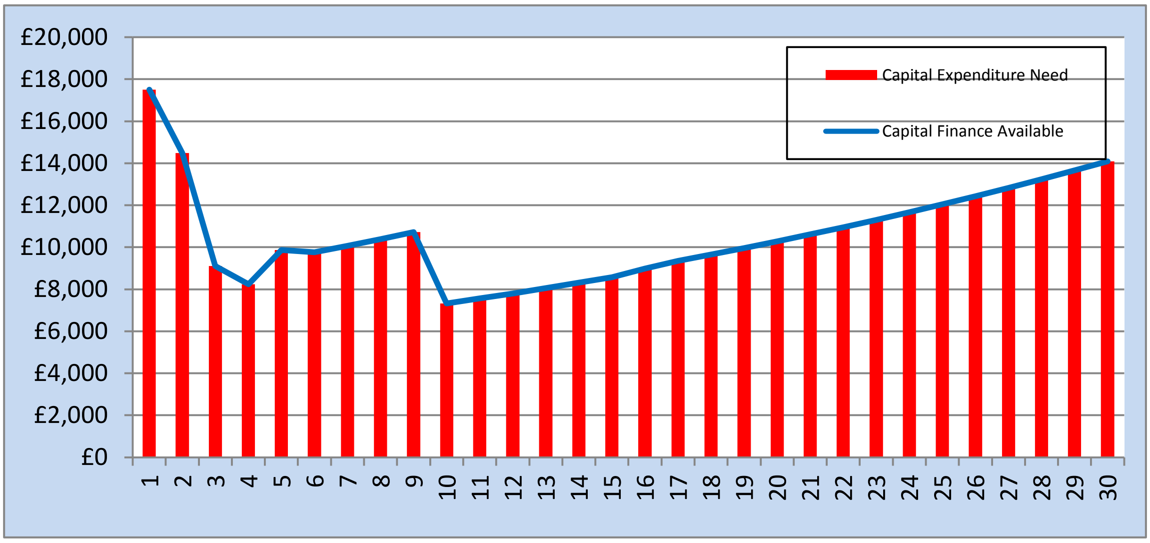



35. Graph 1 shows the HRA CFR outstanding for the life of the HRA Business Plan. The HRA CFR is defined as the amount of housing debt held by an authority.

36. The outstanding debt remains high due to the £38.7m of projects that have been included in the plan, such as the sheltered refurbishments and the affordable homes programmes.

37. The profile of the debt, as currently reported could change in future, depending on future proposals not included in the model or any changes in priorities, as agreed by Members. This is a flexible approach, that and will be monitored by officers as new projects are considered and approved.

**Graph 2: Capital Expenditure and Resources (values shown in £000's, year 1 – 2016/17)**




38. The model also tracks the levels of planned capital expenditure and the availability of resources, and highlights any years where there are insufficient resources available to meet the financial demands. The plan has been updated to allow for the cost recovery programme.

39. It should be noted that the updated plan has no years where the capital programme exceeds the available resources (see Graph 2 above). If spend did exceed the availability of funds then planned building projects would have to be delayed or postponed until the capital programme matched the funding available, and/or other large savings in planned maintenance or staff would have to be made.

## Wider Policy context

40. Pay to Stay was expected to be introduced by April 2017, however the Government has decided not to proceed with the policy in its compulsory form. Officers will advise Members in due course on the options for the discretionary scheme.

41. The Housing and Planning Act sets out the framework to deliver the sale of higher value local authority housing. It is expected that each HRA authority will be required to make an annual payment to government in respect of vacant higher value properties. However, at the time of writing there is no information available in respect of this, as such no assumptions have been made, or included in the model.

42. Supporting People funding has been reducing in recent years and is very likely to be significantly reduced further in the coming years. Although Kent County Council advised of cuts in Supporting People funding during 2016/17 these have not yet materialised, and expected consultation with service users has not been started.

43. It is assumed that intended cuts in Supporting People funding will be after the Kent County Council elections next year, with the cuts very likely to take effect in 2017/18.

44. Our best assessment is that KCC are only likely to make Supported People

payments in future based on the actual assessed level of need for each sheltered tenant. If this proves to be the case we would lose most of the Supported People funding for scheme managers as currently only around 10% of tenants would be in this high level category. The alarm funding is likely to end completely in 2017/18.

45. In anticipation of these changes an intensive housing management charge was introduced, which is eligible for Housing Benefit. This provides the scope to increase the charge as Supporting People funding reduces or ends, so pressures on the HRA are able to be contained and scheme manager services can continue to be funded.

*EU Referendum*

46. The decision, on 23 June, to leave the European Union, may have an impact on growth forecasts and interest rates, the assumptions in the Business Plan are broadly in line with the Chancellor's Autumn Statement forecast. However the full potential impact of the vote will remain unknown for some time.

## Implications and Risk Assessment

47. The Financial Modelling confirms the work completed at the time of the HRA reform and the associated buyout. It includes the latest financial plans for meeting service priorities

48. The business plan financial projections continue to be viable and include the current spending commitments (as set above), it has the resources to repay its debt by 2036/37 (year 21), alternatively the debt could be re-financed and invested into new projects.

49. If any new initiatives are developed and approved by Members they will be incorporated into the business plan financial projections and the impact on the viability of the business plan will be costed and measured and reported back to Members when those initiatives are reviewed.

50. Likewise, as new proposals and changes are put forward by Government these will be incorporated into the business plan financial projections and mitigating action taken, as appropriate, with guidance from Members.

## Next Steps in Process

51. Members are asked to agree the latest updated HRA business plan financial projections which set out the long term financial plans for the Council's housing stock which has been set in conjunction with the detailed HRA budget for 2017/18 (also on this agenda).

52. Members are asked to note that Overview and Scrutiny (O&S) are required to review the HRA business plan financial projections as part of the budget scrutiny process.

53. Members are asked to approve the updated priorities.

54. Work will continue to review and further update the Business Plan financial projections in the light of forthcoming Government announcements.

## Portfolio Holder's Views

55. Colleagues will be pleased to see that after the actions taken to review the Housing department structure, together with other cost reductions, we have been able to recover the financial position in relation to the HRA. The updated

business plan enables us to continue to deliver our new build programme and also allows us to revisit improvements to some of our sheltered schemes. The plan also identifies continuing and improved support for tenants requiring adaptations due to a disability. We will monitor the financial position closely to ensure that we stay on course and should further funds become available we will invest these in the delivery of the new business plan priorities.

## Contact and Email

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# Appendix A – HRA Business Plan – Top level budget summary to 2025/26

| Year | 2016.17 | 2017.18 | 2018.19 | 2019.20 | 2020.21 | 2021.22 | 2022.23 | 2023.24 | 2024.25 | 2025.26 |
|---|---|---|---|---|---|---|---|---|---|---|
| **£'000** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |
| **INCOME:** | | | | | | | | | | |
| Rental Income | 24,113 | 24,695 | 24,998 | 24,798 | 24,593 | 25,170 | 25,783 | 26,410 | 27,052 | 27,708 |
| Void Losses | -121 | -123 | -124 | -123 | -122 | -125 | -128 | -131 | -134 | -137 |
| Service Charges | 808 | 827 | 854 | 881 | 909 | 938 | 968 | 999 | 1,031 | 1,064 |
| Non-Dwelling Income | 105 | 107 | 111 | 114 | 118 | 122 | 126 | 130 | 134 | 138 |
| Grants & Other Income | 3,200 | 3,040 | 3,041 | 3,042 | 3,044 | 3,045 | 3,047 | 3,048 | 3,050 | 3,051 |
| **Total Income** | **28,105** | **28,546** | **28,880** | **28,713** | **28,543** | **29,150** | **29,796** | **30,456** | **31,132** | **31,824** |
| **EXPENDITURE:** | | | | | | | | | | |
| General Management | -4,503 | -4,506 | -4,544 | -4,689 | -4,839 | -4,994 | -5,154 | -5,319 | -5,489 | -5,665 |
| Special Management | -798 | -817 | -844 | -871 | -898 | -927 | -957 | -987 | -1,019 | -1,052 |
| Other Management | -5,074 | -5,196 | -5,363 | -5,534 | -5,711 | -5,894 | -6,083 | -6,277 | -6,478 | -6,685 |
| Rent Rebates | 0 | 0 | 0 | 0 | -89 | -92 | -95 | -98 | -101 | -104 |
| Bad Debt Provision | -60 | -62 | -62 | -61 | -61 | -62 | -64 | -65 | -67 | -69 |
| Responsive & Cyclical Repairs | -3,318 | -3,388 | -3,401 | -3,458 | -3,528 | -3,612 | -3,779 | -3,910 | -4,035 | -4,164 |
| **Total Revenue Expenditure** | **-13,754** | **-13,970** | **-14,213** | **-14,613** | **-15,127** | **-15,582** | **-16,131** | **-16,656** | **-17,188** | **-17,737** |
| Interest Paid | -3,897 | -3,915 | -3,859 | -3,843 | -3,902 | -4,080 | -4,063 | -4,141 | -4,217 | -4,185 |
| Finance Administration | -58 | -60 | -62 | -64 | -66 | -68 | -70 | -72 | -75 | -77 |
| Interest Received | 35 | 17 | 5 | 5 | 5 | 27 | 27 | 30 | 31 | 33 |
| Depreciation | -5,543 | -5,667 | -5,810 | -5,944 | -6,086 | -6,238 | -6,400 | -6,565 | -6,735 | -6,909 |
| **Net Operating Income** | **4,889** | **4,953** | **4,942** | **4,254** | **3,366** | **3,210** | **3,160** | **3,052** | **2,949** | **2,949** |
| **APPROPRIATIONS:** | | | | | | | | | | |
| FRS 17 /Other HRA Reserve Adj | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Provision (HRACFR) | 0 | -3,342 | -2,823 | -2,942 | 0 | 0 | 0 | 0 | 0 | -2,430 |
| Revenue Contribution to Capital | -6,913 | -6,512 | -2,070 | -1,391 | -3,323 | -3,321 | -2,990 | -3,043 | -2,917 | -416 |
| **Total Appropriations** | **-6,913** | **-9,853** | **-4,893** | **-4,333** | **-3,323** | **-3,321** | **-2,990** | **-3,043** | **-2,917** | **-2,846** |
| **ANNUAL CASHFLOW** | **-2,024** | **-4,901** | **49** | **-79** | **43** | **-111** | **169** | **10** | **32** | **103** |
| Opening Balance | 7,868 | 5,844 | 943 | 992 | 913 | 956 | 845 | 1,014 | 1,024 | 1,056 |
| **Closing Balance** | **5,844** | **943** | **992** | **913** | **956** | **845** | **1,014** | **1,024** | **1,056** | **1,159** |

# Appendix B – HRA Business Plan – Top level summary of New Build, Sheltered Housing schemes and other items

| Programme Name | HRA Revenue Contribution to Capital Projects | 2016/17 | 2017/18 | 2018/19 | 2019/2 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|---|---|
| Farrow Court | 1,930,938 | 1,930,938 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AHP Contract 1 | 879,303 | 800,554 | 78,749 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AHP Contract 2 | 795,954 | 822,203 | (26,250) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Danemore | 5,661,392 | 4,066,000 | 1,595,392 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Poplars | 6,297,897 | 1,068,791 | 3,758,371 | 1,470,735 | 0 | 0 | 0 | 0 | 0 | 0 |
| Buy backs - Poplars | 750,000 | 750,000 | | | | | | | | |
| East Stour | 7,886,771 | 0 | 1,925,000 | 1,925,000 | 1,986,600 | 2,050,171 | 0 | 0 | 0 | 0 |
| Oakleigh | 13,835,955 | 0 | 0 | 0 | 0 | 0 | 3,297,314 | 3,402,828 | 3,511,719 | 3,624,094 |
| Court Wurtin | 675,000 | 300,000 | 0 | 0 | 0 | 375,000 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| **Total** | **38,713,210** | **9,738,486** | **7,331,262** | **3,395,735** | **1,986,600** | **2,425,171** | **3,297,314** | **3,402,828** | **3,511,719** | **3,624,094** |