ASHFORD
BOROUGH COUNCIL

Agenda Item No:	9
Report To:	Cabinet
Date of Meeting:	7 December 2017
Report Title:	Housing Revenue Account (HRA) Business Plan 2017-2047
Report Author & Job Title:	Sharon Williams, Head of Housing Jo Stocks, Senior Accountant
Portfolio Holder Portfolio Holder for:	Cllr. White, Portfolio Holder for Housing Cllr. Shorter, Portfolio Holder for Finance & IT

Summary:

This report provides an annual update to Members on the financial projections associated with the HRA Business Plan.

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 and the approved capital schemes.

In addition the Business Plan has been amended to reflect the recent government announcement that with effect from 2020 the four year rent reduction on social housing will end and rents will increase by CPI + 1%

Overall the plan remains affordable and there are no significant revisions from the version prepared in 2016 (Cabinet November 2016).

A bid has been made to DCLG for an increase in the HRA debt cap and an announcement is anticipated in the near future. Should this be successful this will enable the Council to deliver an additional 108 homes.

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. Note that Overview and Scrutiny (O&S) are required to review the HRA Business Plan financial projections as part of the budget scrutiny process.

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 forecasts that the HRA business plan continues to be a robust and viable business and is able to deliver its key priorities. 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 2018.
Other Material Implications:	None
Exempt from Publication:	**No**
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Report Title: Housing Revenue Account Business Plan 2017-2047

1. In November 2013 it was agreed that Cabinet would receive an annual update of the HRA Business Plan financial projections. This report updates the position for the period 2017-47.

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 £120m, an average of approximately £24,500 per property.

4. As part of the HRA reform Government imposed a debt cap for each Local Authority, Ashford's debt cap is £126m, it is not permitted to be in excess of this amount at the end of a financial year.

5. The HRA buyout enabled the council to focus on its key priorities for council housing, which were updated and agreed by Cabinet at the December 2016 meeting:

    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.

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 4,600 properties. It also monitors and funds the Private Finance Initiative (PFI) for the regeneration of Stanhope in South Ashford.

7. Due to the impact of the four year 1% rent reduction, implemented by Government in 2016/17 (2017/18 being the second year), a service review of Housing was implemented, which has mitigated the effects of the rent loss over the four year period. This review was approved by Cabinet at the December 2016 meeting.

Significant changes

Modelling Assumptions

Projects

8. 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, these include:

    - Farrow Court
    - Danemore
    - Affordable Housing Programme 2015-2019
    - Affordable Housing Development 2018-2022
    - Court Wurtin

Inflation Forecast and Impact

9. 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 the Government formula of CPI+1%. However, between 2016/17 to 2019/20 social housing rents are to be reduced by 1% per annum.

10. Government have proposed that after the current period of rent reduction has come to an end social housing rents will revert to increases of CPI +1%. This assumption has been included in the model. However, if this were to change then the model would need to be revisited to mitigate the effects of a loss in income. Inflation assumptions have been updated in the model to reflect those used in the Medium Term Financial Plan (elsewhere on the agenda), these assumptions were provided by Arlingclose, the council's treasury advisors.

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

11. Interest rates are a potential risk to the model if debt is not paid off in line with the Treasury portfolio timetable. It has been assumed that rates will remain at 0.5% for the remainder of 2017/18, increasing to 0.75% partway through 2018/19, slowly increasing up to 3% by 2041/42.

12. The HRA debt repayment profile, which is part of the treasury portfolio, remains unchanged with the maturing fixed debt due at various times over the life of the plan. Members will be able to review this profile of debt repayment if and when new capital plans come forward for review.

13. 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.

14. 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

15. 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) would be converted from social rents to affordable rents. In order to achieve this average the model assumes that 100 void conversions will be completed in 2017/18 and 20 in 2018/19, with none after that point.

16. 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, from the Homes & Communities Agency for new affordable housing. The council is currently maximising the use of one-for-one monies, but will continue to review the need for HCA funding and void conversions as required by the model, and the resources available.

Welfare Reform

17. A continuing risk for the Business Plan is the impact of Welfare Reform. Despite Ashford's statistics continuing to show high rent collection levels those Local Authorities that have implemented Universal Credit are seeing arrears levels increase significantly. In developing the Business Plan the annual provision for bad debts has been revised, from year 3, to a higher level of 1% for general housing, with sheltered housing kept at the lower level of 0.25%. Sheltered housing is at a lower risk of arrears because the age demographic of these properties implies the residents are in receipt of pensions and other associated benefits.

18. In 2016/17 the annual rent charge was changed from 50 weeks to 52 weeks, in line with Local Housing Allowance rates. This change was implemented to assist tenants in budgeting their rents effectively throughout the year, in a move to assist in reducing arrears.

19. In 2017/18 RentSense was introduced, this new system monitors rents and arrears and allows officers to better support tenants as Universal Credit becomes more widely implemented. The system gathers and analyses trend information and is able to predict when tenants may need further support from officers to keep up with their rent payments.

20. 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 and continue to implement a range of tools to mitigate the effects for both tenants and the council.

General Fund Recharges

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

22. The 2017/18 budget is forecasting a charge of approximately £2,375,200 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

23. Kent County Council was expected to reduce Supporting People income, from 2017/18. However, we have received an additional £165,000 in the current year. In respect of future years, Kent County Council have confirmed that this funding will not be available and the model has been adjusted to reflect this change.

24. The Planned Maintenance programme reflects the likely spend per annum and includes a 10% contingency sum to address unforeseen major works.

25. Disabled adaptations were increased in 2016/17 to £605,000 to meet the higher demand. This increased level of investment has allowed officers to address the backlog, and the disabled adaptations budget can now be reduced to £400,000 from 2018/19, with the aim that we can deliver required adaptations within six months.

26. The purchase of 11 street properties, using 'one for one' money has been included for 2017/18, with a further 10 per annum for the next four years. It should be noted that these numbers could change, depending on the resources available. Delegated authority to the Head of Housing and Director of Finance & Economy in consultation with Portfolio holders was agreed in the Financial Monitoring Report presented to Cabinet in November 2017.

27. The model continues to maintain a minimum reserve balance of £1m, to meet approved priorities, and focus 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 the HRA's indebtedness.

28. Right to Buys have decreased during 2017/18, with only 7 having taken place this year to date (31 at this time last year). It is thought that uncertainty around interest rates is discouraging potential sales. With lower sales the money retained in respect of one-for-ones will be lower, however the reduction in sales means there will be less pressure to replace stock in future years.

29. The Business Plan assumes Right to Buys will reach 15 in 2017/18, increasing to 20 going forward. Officers will continue to monitor the position and use the resources available to maximise the capital programme, while ensuring it is still affordable.

30. Since setting the 18/19 Budget £987,000 of section 106 money has been allocated to the HRA for affordable housing. These funds will be used to fund approved affordable housing projects; allowing for further capital projects in the HRA to be explored.

Capital Receipts

31. Capital receipts received for the sale of council properties, 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 is reduced due to the loss of income growth.

32. With the announcement to extend Right to Buy 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. The details are not expected to be announced by Government in this financial

year, therefore the impact of this will not be felt until at least 2019/20. No assumptions have been made in the model to reflect the potential impact of this, however officers will keep this under review as information becomes available.

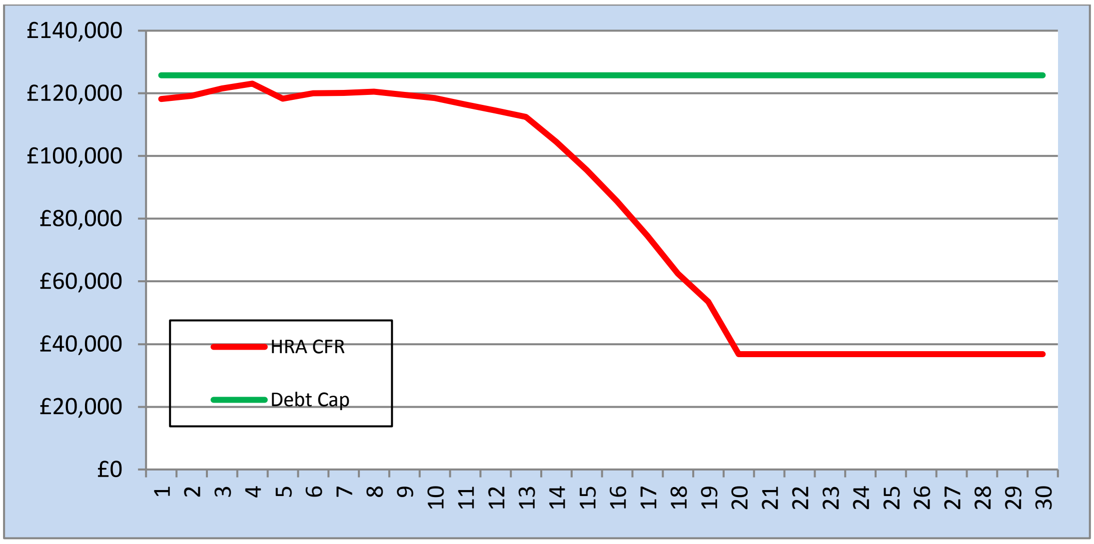
33. It should be noted that capital receipts from Right to Buys are also applied to General Fund capital programme items, such as Disabled Facilities Grant (DFG) and community projects.

34. 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’, as a result the Council started to retain receipts from 1 October 2012. These receipts need to be used within three years for the provision of additional affordable housing by means of purchase and development of dwellings. If these receipts are not used they need to be returned to the Secretary of State with an interest charge of 4% above base at the time of the funds being held (compound interest chargeable with 3 month rests).

35. 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 includes the purchase of existing street properties, Danemore and other affordable housing developments. One-for-One funding can account for up to 30% of the build cost per affordable unit, with the remainder funded by the HRA, revenue or borrowing. 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 – 2017/18)



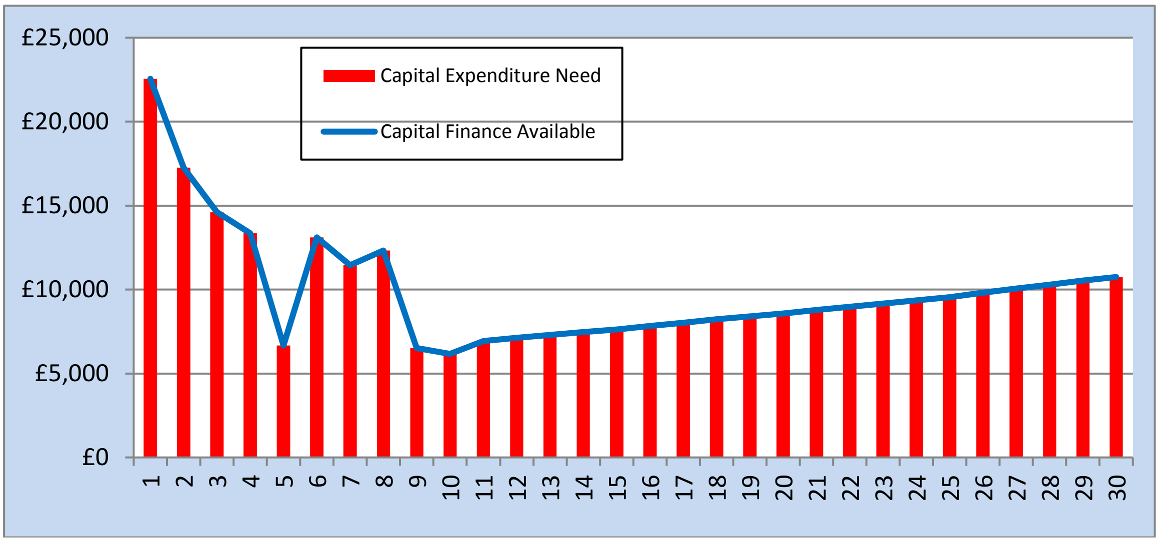
36. Graph 1 shows the HRA CFR (Capital Financing Requirement) outstanding for the life of the HRA Business Plan. In this graph the HRA CFR is defined as the amount of housing debt held by an authority.

37. The outstanding debt remains high due to the £50m of projects that have been included in the plan, such as the sheltered refurbishments and the affordable homes programmes.

38. 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, which 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 – 2017/18)



39. The Business Plan 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.

40. 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 be delayed or postponed until the capital programme matched the funding available, also other large savings in planned maintenance or staff would have to be considered during this process.

Wider Policy context

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. 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 comes to an ends. This allows the scheme manager services to continue to be funded, reducing the pressure on the HRA.

EU Referendum

43. The decision, on 23 June 2016, to leave the European Union, is expected to continue to have an impact on growth forecasts and interest rates, the assumptions in the Business Plan are broadly in line with the advice from our treasury advisors, however the full potential impact of Brexit will remain unknown for some time.

Bespoke Deals with the Department for Communities and Local Government (DCLG)

44. The current HRA Business Plan is based on the financial constraints placed upon the HRA by Government. However, it should be noted that Government have indicated a willingness to work with councils to create bespoke offers.

45. Ashford are in the process of presenting a bespoke offer to DCLG which involves an increase to the debt cap. Should this offer be accepted then the projects included in the current model can be accelerated to be delivered within 5 years instead of 8 years , with 108 additional units provided at a number of sites, as well as the continued modernisation of our older persons schemes.

46. In the Autumn 2017 budget it was announced that Local Authorities will be invited to bid for an increase in their debt caps (from a £1 billion pot), between 2019/20 to 2021/22. It is anticipated that once more information becomes available officers and members will look to maximise Ashford's opportunities to build more affordable housing.

Implications and Risk Assessment

47. 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 2037/38 (year 20), alternatively the debt could be re-financed and invested into new projects.

48. 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.

49. 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

50. 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 2018/19 (also on this agenda).

51. 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.

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

Portfolio Holder's Views

53. This is a crucial time for housing delivery both in the Borough and nationally. I am confident that we have maximised resources in the HRA to meet the priorities set out and to continue to deliver an affordable housing programme. We have ambitious plans to increase our development opportunities and have made a bid to the DCLG to increase the Council's debt cap level to enable us to deliver more homes for local people.

Contact and Email

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Appendix A – HRA Business Plan (extract) – Top level budget summary to 2026/27

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
INCOME:										
Rental Income	23,780	24,127	24,160	24,997	25,738	26,537	27,441	28,377	29,232	29,998
Void Losses	-71	-77	-80	-84	-86	-90	-94	-99	-103	-106
Service Charges	836	857	877	894	912	930	949	968	987	1,007
Non-Dwelling Income	66	66	67	69	70	72	73	75	76	78
Grants & Other Income	3,205	3,000	3,000	3,000	3,000	3,000	3,060	3,121	3,183	3,247
Total Income	**27,816**	**27,973**	**28,024**	**28,876**	**29,634**	**30,449**	**31,429**	**32,441**	**33,376**	**34,224**
EXPENDITURE:										
General Management	-4,393	-4,516	-4,683	-4,844	-5,010	-5,182	-5,362	-5,549	-5,744	-5,945
Special Management	-736	-755	-772	-787	-803	-819	-835	-852	-869	-886
Other Management	-5,228	-5,358	-5,479	-5,588	-5,700	-5,814	-5,931	-6,049	-6,170	-6,294
Rent Rebates	-51	-51	-51	-52	-54	-55	-57	-59	-61	-62
Bad Debt Provision	-59	-60	-209	-215	-225	-231	-237	-244	-250	-257
Responsive & Cyclical Repairs	-3,474	-3,331	-3,409	-3,480	-3,549	-3,695	-3,826	-3,932	-4,037	-4,120
Total Revenue Expenditure	**-13,941**	**-14,071**	**-14,603**	**-14,966**	**-15,340**	**-15,796**	**-16,248**	**-16,685**	**-17,131**	**-17,564**
Interest Paid	-3,703	-3,740	-3,887	-4,044	-4,213	-4,113	-4,205	-4,249	-4,268	-4,239
Finance Administration	-60	-62	-63	-64	-65	-67	-68	-69	-71	-72
Interest Received	10	3	2	2	2	2	2	2	7	19
Depreciation	-4,898	-4,901	-4,912	-4,926	-4,916	-4,933	-4,947	-4,963	-4,953	-4,942
Net Operating Income	**5,223**	**5,202**	**4,562**	**4,879**	**5,102**	**5,542**	**5,963**	**6,475**	**6,961**	**7,425**
APPROPRIATIONS:										
FRS 17 /Other HRA Reserve Adj	0	0	0	0	0	0	0	0	0	0
Revenue Provision (HRACFR)	-3,342	0	0	0	0	0	0	0	0	0
Revenue Contribution to Capital	-6,512	-6,309	-4,510	-4,921	-5,098	-5,550	-5,972	-6,474	-2,075	-1,742
Total Appropriations	**-9,853**	**-6,309**	**-4,510**	**-4,921**	**-5,098**	**-5,550**	**-5,972**	**-6,474**	**-2,075**	**-1,742**
ANNUAL CASHFLOW	**-4,630**	**-1,107**	**52**	**-43**	**3**	**-8**	**-10**	**1**	**4,886**	**5,683**
Opening Balance	6,753	2,123	1,017	1,068	1,026	1,029	1,022	1,012	1,013	5,899
Closing Balance	**2,123**	**1,017**	**1,068**	**1,026**	**1,029**	**1,022**	**1,012**	**1,013**	**5,899**	**11,582**

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

Programme Name	**HRA Revenue Contribution to Capital Projects**	**2017.18**	**2018.19**	**2019.2**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**
Farrow Court	1,509,391	1,509,391	0	0	0	0	0	0	0
AHP Phase 5 (HCA)	2,130,819	2,130,819	0	0	0	0	0	0	0
AHP Phase 5 (1-4-1)	3,702,475	3,702,475	0	0	0	0	0	0	0
Danemore	4,538,050	2,919,025	2,319,025	(700,000)	0	0	0	0	0
Court Wurtin	472,500	210,000	0	0	262,500	0	0	0	0
Affordable Homes Delivery 2018-22	36,297,396	1,445,714	6,246,400	6,669,200	4,586,686	(375,000)	5,461,000	6,035,136	6,228,260
	48,650,631	**11,917,424**	**8,565,425**	**5,969,200**	**4,849,186**	**(375,000)**	**5,461,000**	**6,035,136**	**6,228,260**