Title: Housing Revenue Account Business Plan Review 2021
Lead Officer: Lisa Barker/ Victoria Bamber
Portfolio Holder: Councillor Jan Matecki
Wards of the District directly affected: All

Summary

The Housing Revenue Account Business Plan (HRA BP) is reviewed annually and updated to reflect changes in legislation, the housing market and business assumptions.

The Council must present a 30-year HRA BP as a minimum but has adopted a 50-year HRA BP which must remain viable in line with the longer-term financial commitments, allowing the Council to manage and maintain its housing stock, to proceed with the projects already approved by Cabinet, to service the debt created by the HRA becoming self-financing, to service the debt from new borrowing and provide a financial surplus.

Recommendation(s)

1. That the Cabinet approves the revised Housing Revenue Account Business Plan (HRA BP) assumptions, as set out at Appendix 1, and the revised HRA BP for the 50-year period 2020/21 to 2069/70, as set out at Appendix 2.

2. That the Cabinet notes that this refreshed HRA BP has factored in a number of recently approved developments within the service area, some of which are presented for approval in December 2021 Cabinet alongside this report.

3. That Cabinet approve the 10 year Housing Investment Plan capital budgets noted in appendix 4 for the construction and acquisition of new Council housing, funding for major works to housing stock and four new Department for Business, Energy & Industrial Strategy (BEIS) Climate Change Grant funded works schemes in relation to successful Grant and Match Funded Works Bids to make Council homes warmer to achieve a greater Energy Performance Certificate (EPC) standard.

4. That the Cabinet notes that negative impact assumptions stated in Appendix 1 have been included in the financial modelling shown in Appendix 2 relating to Covid-19, bad debt levels and reduced Right to Buy (RTB) sales for a 3-5-year period alongside an increased levels of arrears.

5. That the Cabinet recommends to Council a staffing budget increase of up to £102k (inclusive of on-costs) to provide additional capacity, and delegates authority to the Head of Housing in consultation with the Portfolio for Health, Homes and Communities to determine the specific detail of resource requirements. The additional funding required falls within the HRA.

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1 Background/Information

1.1 The Housing Revenue Account (HRA) is the financial account used to manage the Council's activities as a landlord. It is a ring-fenced account and can only be used to provide services to Council housing tenants. The HRA Business Plan is a key strategic document which sets out the Council's income and expenditure plans for delivering Council Housing Services

1.2 Housing has moved up the national and local political agenda over the last decade. National issues around the affordability of home ownership, high costs of private renting and availability of genuinely affordable homes have driven this. Locally increases in homelessness including the most visible form, rough sleeping, the tragedy surrounding the Grenfell Tower fire, ambitions to deliver new Council homes and the Climate Emergency being declared by the Council in 2019 have shaped the debate more recently alongside the uncertain impacts of Brexit and the ongoing Covid-19 pandemic.

1.3 The HRA BP will continue to be reviewed on a regular basis and the underpinning assumptions will require further annual revisions. Without the proposals contained within the report being reviewed regularly the viability of the BP is at risk and will result in the Council needing to curtail its ambitions. The proposals in this BP will allow for future policy changes, and their financial implications, to be managed within the existing plan, and for investment decisions to be made regarding the existing housing stock and future construction, acquisition, and service projects.

1.4 April 2012 the national Housing Revenue Account Subsidy System (HRASS) was replaced and Council's operating a HRA were required to do so on a 'self-financing' basis. This required each such council to make a payment (and a few to receive a payment) to Government to secure release from the HRASS, each individually calculated and based on an assessment of the assumed payments that would otherwise have been made into the HRASS had it continued to operate for a further 30 years. In WDC's case this required a one-off payment of £136.2m which was loan financed. On 6th March 2012 Cabinet approved a HRA BP for the period 2012/13 – 2061/62 which, based on the assumptions made at the time, ensured the Council would have a viable plan that provided for the loan to be repaid under the terms arranged, for the investment and management needs of the housing stock to be met and which provided financial headroom, through the accumulation of revenue surpluses that could be used to secure additional HRA homes. As part of the careful management and monitoring of the HRA BP, an annual review of the underpinning assumptions is undertaken and any changes required to the plan as a result, along with any divergences in income or expenditure, are reported to Cabinet annually as well as part of the Council's overall annual budget setting process.

1.5 The historic plan was for the HRA BP to repay the self-financing debt repayments from 2051/52 to 2061/62. The revised plan approved in December 2020 Cabinet is for the £136.2m debt is refinanced and repayed at a later point in time. As a result of this change the 50 Year Maturity Loan Interest payment will continue to be facilitated until 2051/52 with a view to the Capital Repayments being re-financed in line with specialist Treasury Advice.

1.6 The HRA Borrowing Cap was removed on 30th October 2018 resulting in greater flexibility for the Council to borrow monies (In full or part) to purchase and/or develop housing alongside utilising balances.

1.7 In line with the Council's announcement of the Climate Emergency the Housing Improvement Plan, after being extended from 5 years to 10 years at the December 2020 Cabinet, will continue to be presented as a 10-year plan to enable the HRA BP to fund the increased costs associated with these works.

1.8 Where available Grant will be actively sought in line with the Council's Affordable Housing Investment Partner Status with Homes England to support currently approved and future housing schemes to lessen the financial impact on the HRA BP.

1.9 Development and land purchase schemes approved in separate Cabinet and Council meetings since the HRA BP was last presented in December 2020 have been incorporated into the overall financial assumptions.

2 Reasons for the Recommendations

2.1.1 The HRA BP must remain robust, resilient, and financially viable. Revising the HRA BP annually ensures the Council's HRA is able to continue to deliver its ambitious development programme, provide much needed social and affordable housing in the District and facilitate the re-financing of the £136.2m 2012 self-financing loan which was approved in the 11th January 2012 Executive Meeting. The plan to refinance the self-financing debt results in either the partial or full refinancing of the £136.2m loan for a longer period of time.

2.1.2 The HRA details the plans for development and acquisition expenditure in the Housing Investment Plan (HIP) alongside its budgets for the major works of its housing stock. In recent years there have been extra demands placed on the HIP from housing development schemes, but also from the requirement to complete increased levels of work and costs linked with maintaining and improving the housing stock in line with the Climate Emergency announcement in 2019 and increased levels of Fire Safety Works. The HRA 10-year HIP ensures the long-term planning of these costs, schedules of works and developments to ensure there are sufficient resources in place.

2.1.3 The revised HRA BP provides for a minimum operational balance of £1.5m after all appropriations have been deducted. This minimum surplus is increased annually for inflation alongside ensuring a revenue surplus to be achieved annually for transfer to the HRA Capital Investment Reserve (CIR). As shown in Appendix 2, the balance of the HRA CIR at the end of the current financial year is expected to be £23.1m and, based on current projections, will reduce annually until 2031/32 when it will start to increase again.

2.1.4 The original self-financing plan was to service the PWLB Maturity Loan interest cost for 40 years and then begin paying the £136.2m debt capital back in intervals of £13m-£19m over a 10-year period from 2051/52-2061/62. In prior versions of the HRA BP there were sufficient balances within the CIR and Major Repairs Reserve (MRR) to facilitate the repayment of this debt, but this is no longer possible due to the strain on the model caused by the additional climate change and fire safety works alongside increased development and rent increases being reduced due to the impact of Covid-19.

2.1.5 By 2061/62 there is a forecast capacity to pay £82.4m of the debt made up of a balance of £43.7m in the CIR and £38.7m in the MRR. At this point the HRA has the option to refinance the loan repayments for the period 2051/52-2061/62 and repay some of the debt. Specialist advice was sought from Link Treasury Management, who confirmed that there is no legal requirement to repay the debt within the original timeframe linked with the Government's original Self-Financing legislation. It was advised that a number of other Local Authorities have taken the decision to refinance their self-financing debt to enable them to focus on house building and other priorities in the short term. Indeed, this is the financial model adopted by many housing associations. Link Treasury Management advised that a similar level of interest repayment should be assumed in the HRA BP for an indefinite period if the decision to refinance the repayment of Debt Capital is made.

2.1.6 Approval of any plans for the partial repayment of debt would need to be revised at that point in time alongside the assessment of further borrowing required. The HRA Business Plan remains viable when continuing to fund the annual £4.765m in self-financing interest payments for the 50-year plan.

2.1.7 The revised HRA BP will be able to maintain existing service provision, fully meet the responsive and cyclical repair needs of the HRA stock and continue to invest in refurbishment and improvement work to maintain the Decent Homes Standard through the HIP.

2.1.8 The removal of the HRA Borrowing cap on the 30th October 2018 by the Ministry of Housing Communities & Local Government (MCHLG) was implemented to enable Councils to build more homes. During MHCLG's consultation on the matter the borrowing cap was stated to be the biggest barrier to Councils building new homes and as such the cap was removed to "reaffirm the appetite to deliver a new generation of council homes".

2.1.9 A further Central Government policy borrowing change on 12 March 2020 advised that the HRA is to be given favourable rates of financing to borrow for acquisitions or construction of Social and Affordable Housing resulting in a reduction in interest rates of 1% from 1.86% to 0.86% where the purpose is for housing related expenditure. Details of all currently approved borrowing for such schemes and the subsequent timing of repayment of this debt are noted on Appendix 2.

2.1.10The underpinning HRA BP assumptions are set out in Appendix 1, with explanatory notes documenting all changes from the previous iteration of the HRA BP. These changes have then been applied to the HRA BP which has been revised, taking the closing 2020/21 financial position as the baseline through to 2070/71. The revised Plan is set out in Appendix 2. A summary of the changes between the previously approved 2020/21 iteration of the HRA BP and the revised current year Plan are set out in Appendix 3

2.1.11 A 10-year HIP was adopted in the December 2020 Cabinet Report to enable the Climate Emergency and Fire Safety works to be completed and enables the HRA BP to remain financially viable as a result of phasing the expenditure across a longer period. The new HIP is noted in Appendix 4 and contains the following costs over a 10-year period:

- £35.7m Stock Condition Survey works
- £26.6m Climate Emergency works associated with the Council declaring a Climate Emergency
- £30.0m required for Fire Safety works in line with Fire Risk Assessments resulting from the Grenfell Tragedy.
- £6.7m Decarbonisation Grant funded works in line with central government partnership schemes

2.1.12 In conjunction with the utilisation of borrowing the development projects in the HIP also contains the approved Housing Development and Acquisition Projects which are generally funded from a mix of:

- External Borrowing
- The HRA Capital Investment Reserve
- Right to Buy (RTB) receipts from the sale of council houses
- Homes England Capital Grant
- Other Grants
- Capital Receipts from Affordable Homes Shared Ownership sales

2.1.13 The Major Repairs Reserve (MRR) is a ring-fenced account for the purpose of maintaining and improving existing housing stock. The HIP also contains the planned spend for the HRA's Capital Major Improvement and Renewal works to the Councils Housing Stock, these works are mainly funded using a mix of:

- The Major Repairs Reserve
- Capital Grants

2.1.14 The works funded using the MRR have been scheduled using separate stock condition surveys which were completed with a specialist housing consultancy, Michael Dyson Associates Ltd. These surveys have provided information in respect of the condition of the main elements, known as stock attributes, of HRA homes. This survey information, complementing information from our in-house team of surveyors, has enabled a comprehensive picture of the current state of, and consequently the future investment needs, of a range of stock attributes such as kitchens, bathrooms, roof coverings, windows, doors and rainwater goods.

2.1.15 The surveys undertaken to date allow the Council to fix a baseline position for the entire HRA stock which, in turn, allows for the maintenance needs to be costed for the lifetime of the revised HRA BP. This baseline will continue to be refined in future years through a combination of in-house surveying and data analysis and has been updated to factor in the Climate Change and Fire Safety works. The exiting 2021/22 HIP budget allocation will be directed to meet the most pressing needs, with a full revision of the profile of the future HIP to take place next financial year, to ensure that all the poorest condition attributes are remedied as quickly as possible, and a tailored investment programme is put in place to replace items on a timely basis.

2.1.16 The MRR is forecast to have a closing balance of £5.4m at the end of the current financial year. The balance of the MRR is increased annually by the amount of the annual depreciation charge to the HRA stock, which for 2021/22 is an estimated £6.2m. Based on current projections and the large financial strain on the HRA BP to deliver stock condition works, climate change works noted in Appendix 2, the MRR balance is expected to drop as low as £4.9m by 2022/23. It will however remain sufficient to fund the required level of improvements necessary as it will be topped-up using a contribution from the CIR with the balance beginning to increase after this point and by 2029/30, when the HRA should have completed the Climate Change and Fire Safety works, the balance returns to prior year levels of £10.0m.

2.1.17 The HRA Housing stock itself is re-valued annually and further confidence in the viability of the HRA BP can be derived from the current valuation noted in Appendix 5 of £411.123m based on the Existing Use Valuation methodology for social housing or £1.018bn based on an unrestricted use valuation as at 31 March 2021. These valuations are significantly higher than the peak projected total borrowing of £237.3m in 2027/28 resulting from a combination of the £136.2m self-financing debt and additional £101.1m debt resulting from further borrowing to finance housing acquisition schemes. The additional housing acquisition debt is fully serviced from the rents received from the new dwellings.

2.1.18 A number of housing acquisitions, development schemes and land acquisitions have been approved as noted in the HIP at Appendix 4, some of which will be funded using borrowing from the Public Loans Works Board (PWLB) to ensure that sufficient balances remain in the MRR and CIR. There are two material Land Purchases contained within the HIP which are yet to have the development plan approved. It is expected that these sites will warrant separate Cabinet approval with the Housing Strategy and Development Team working on the optimum development plan to ensure that these schemes are financially beneficial to the HRA. The cost of carrying these land acquisitions is one of the negative contributing factors to the HRA BP's reducing CIR and MRR balances up to 2025/26. It is expected that once the sites have been developed the rental income will improve the long-term projections for the HRA BP and is likely to improve the capability to repay more of the Self-Financing Debts. Nevertheless, the short term negative financial impact on the HRA is material and must be noted where large parcels of land are purchased especially when there is a significant time lag between purchase and sales or occupation of homes taking place to generate rental income. Alternative delivery models are also being explored that may enable the land to be developed outside the limited capacity of the HRA BP or in partnership with other entities.

2.1.19The ongoing construction and acquisition projects for new homes aim to offset the projected reduction in the HRA stock resulting from continuation of Right to Buy sales at current levels. The below table shows the anticipated total stock changes as at 2070/71 including potential additional dwelling acquisitions and developments being explored as part of the Councils ambitious housing development plan:

New Build potential				
Term	Approved New Build Homes	Pre-Approval status Homes	Right to Buy Sales	Net HRA stock reduction
2020/21 to 2070/71	+521*	+1061	-1,734	-152

* Assumes all ongoing and previously approved plans are maintained.

2.1.20The model above assumes demonstrates that even with the potential 1061 pre-approval status dwellings being included the net HRA stock reduction is still 152 dwellings in deficit. If, however a long-term commitment could be made to acquire a further 40 homes per year on average from years 11-50 in the HRA BP then a further 1600 dwellings would be added to the HRA Housing stock. This would equate to a net HRA stock addition of 1448 dwellings which would negate the Right to Buy losses.

2.1.21The Council entered the Right to Buy Capital Receipts Pooling arrangement with MCHLG in 2012 in line with HRA Self Financing. As part of the agreement the

Council is only able to retain a predetermined % of the Right to Buy Capital Receipts. The level of an authority's retainable RTB receipts in any year also known as 1-4-1 Capital Receipts is the total amount of its Right to Buy Sales receipts. An exert of the Councils receipts retained in 2020/21 are noted below:

RTB Pooling summary 2020/21	£	%
WDC HRA Transaction Cost	27,300	1
WDC HRA Debt contribution	377,267	16
WDC GF share (any purpose)	405,475	17
WDC Buy Back allowance	38,249	2
WDC 1-4-1 allowance	550,193	23
Treasury share	960,966	41
Cumulative Total Receipt	**2,359,450**	100

2.1.22 From 1 April 2021 the Ministry of Housing, Communities and Local Government (MHCLG) changed the rules in the Right to Buy (RTB) Pooling Receipts Retention Agreements between the Secretary of State and authorities under section 11(6) of the Local Government Act 2003 to enable them to retain increased RTB receipts and made amendments to the Local Authorities (Capital Finance and Accounting) Regulations 2003 that came into force on 30 June 2021.

A summary of the changes affecting the HRA BP are:

- The timeframe local authorities must spend new and existing Right to Buy receipts before they breach the deadline of having to be returned to Central Government has been extended from 3 years to 5 years on the understanding this will make it easier for local authorities to undertake longer-term planning.
- The percentage cost of a new home that local authorities can fund using Right to Buy receipts was also increased from 30% to 40% to make it easier for authorities to fund replacement homes using Right to Buy receipts, as well as making it easier to build homes for social rent.
- Authorities can use receipts to supply shared ownership and First Homes, as well as housing at affordable and social rent, to help build the types of home most needed in their communities.

2.1.23 The Councils Policy is to spend the 1-4-1 Capital Receipts in line with the new 40% rule within the 5-year deadline on housing acquisition and development schemes as the Pooling rules will allow. Prior to this policy change the Council always managed to meet the deadlines associated with the 3-year rule. Appendix 4 shows that the balance of any remaining receipts in the 5-year cycle will be used to support housing construction/acquisitions within the plan.

2.1.24 There is no such repayment time limit on the councils Buy Back capital receipts, the Council has ensured they are used annually in line with the 50% funding rule to reduce the cost of acquiring former Council Homes.

2.1.25 A number of options will continue to be considered to mitigate the reduction in HRA stock including:

- Acquisition of existing homes
- Acquisition of s106 affordable homes
- Redevelopment of existing HRA homes

- New build on Council owned land, including garage sites
- New build on acquired land
- Joint venture options
- Buy Back of Social Housing

2.1.26The Council was officially been awarded "Affordable Housing Investment Partner" status from Homes England (HE) in 2020 which enables the Council to apply for grant funding. Where available, grant will be sought to support currently approved and potential new housing schemes to lessen the impact on the HRA Business Plan. Appendix 4 shows that to date £4.066m in grant has been approved to support the funding of schemes.

2.1.27Due to this new agreement with HE and to ensure that all future acquisitions remain viable, all future Affordable Housing Acquisitions linked with Homes England will need rents to be set at the national standard of Affordable rents which are 80% of local market rents. Existing Affordable Housing tenants housed in the HRA's current affordable schemes will continue to pay the historic "Warwick Affordable" rents for the remainder of their tenancy which are charged at a mid-point between Local Market Rent and Social Rent to buffer the impact of this change. This policy change was approved in the HRA Rent Setting report in February 2021 and is assumed in the HRA BP projections.

2.1.28 As part of the Capital Grant Conditions linked with receiving, HE grants the Council has a new legal responsibility to maintain a Recycled Capital Grant Register in the case that the HRA ever disposes of any land or dwellings which were funded using HE Affordable Homes Grant. In the case of a Right to Buy sale or sale of land the Council must either pay back the capital receipt to HE or recycle it and reinvest it by purchasing a replacement affordable home compliant dwelling. This register will need to be maintained in perpetuity and audited for as long as the dwellings and land are held on the Council's HRA asset register. It is expected that Right to Buy sales to dwellings purchased using HE grant will only start in 7-15 years when the new build dwellings become affordable to tenants with longer RTB discounts.

2.1.29 The Council and registered providers can purchase affordable, social rent and shared Ownership dwellings from developers at below market value as they are subsidised by the Homes England Affordable Homes Programme 2020-2024. It is usual for a mix of social, affordable, and shared ownership dwellings to be sold in a preagreed mix. This enables the Council to increase stock numbers by enabling the dwellings to be purchased at below market value to enable the Council's HRA to fund the purchase using the reduced levels of social and affordable rents which must be charged to tenants residing in social and affordable dwellings.

2.1.30 When shared ownership dwellings are purchased as part of affordable homes acquisitions the Council's HRA must find buyers to purchase between 10-25% of the dwelling initially and then pay a % of market rent for the remaining % of the dwelling. This initial % purchase in turn generates a capital receipt for the Council's HRA which is retained to cross subsidise the cost of the Council purchasing the dwellings in such schemes. The shared owners are then able to buy a further % of the dwelling known as "staircasing" until they own 100% or a locally capped % of the dwelling in some circumstances. There is no requirement for the owner to purchase latter % shares, Appendix 4 shows that £10.354m is anticipated from shared ownership sales in the 10-year HIP.

2.1.31 All shared ownership capital receipts must be retained by the Council's HRA to ensure the HRA BP remains viable and such receipts are reinvested to reduce acquisition expenditure.

2.1.32 The uncertain impact of Covid-19 on rents, bad debt, arrears and reduced RTB Sales has been factored into the HRA BP and assumptions are noted on Appendix 1. The reduction in rental inflation linked to RPI and CPI in the previous year meant that rents did not increase at the levels that were expected. In turn it appears this year the anticipated rent inflation is higher than expected which has levelled out the rental income assumptions.

2.1.33 Industry experts Savills have advised the negative impact of the Covid-19 pandemic will be felt for 3-5 years due to fluctuating rent inflation and increased rent arrears due to the economic uncertainty. Appendix 6 shows an analysis of the changes in rent arrears from 2019/20 to 2020/21 using an extract from the Council's Financial Statements. Net arrears have increased by £326k which meant the council had to increase its bad debt provision by £385k in the last financial year. A number of approaches have been adopted to reduce the levels of arrears caused by the Covid-19 pandemic and it is anticipated that this is a temporary increase which will return to pre-pandemic levels in due course as the economy recovers.

2.1.34 The HRA BP will continue to be carefully monitored, the stock condition information maintained and improved, and an annual review of the underpinning assumptions undertaken to allow any further revisions to be reported to Cabinet as part of the HRA budget setting process. However, members will note that there is still a considerable level of uncertainty in respect of the financial impact of Covid-19, prudent assumptions have been factored into this model as noted in Appendix 1 but if the economy does not return to pre-pandemic conditions in the next 3-5 years this could impact the BP further and may impact the HRA's ability to provide the same level of Climate Change and Stock Condition works.

2.1.35 Linked with recommendation 5 the Council is delivering an ambitious housing development programme with around 1,582 new affordable homes in the pipeline, addressing where able, the Council's environmental and sustainability standards. In addition, a new wholly Council owned Housing Company (Milverton Homes Limited) has been established and this is supporting the development of a major site in the district through a Joint Venture. This is delivering a number of benefits to the Council including 248 new zero-carbon homes and generates c£9m income for the Council over 6 years and c £7.2m for Milverton Homes. The company is working on other key sites across the district that are of particular interest to the Council and is exploring two other joint venture opportunities. As a consequence, the service faces a considerable amount of work particularly over the next 2.5/3 years and requires additional resource support to enable these key workstreams to be progressed. The Head of Housing is currently exploring options for delivering the work programme.

3 Alternative Options available to (name of Committee/Cabinet etc.)

3.1 The assumptions underpinning the HRA BP could be left unchanged from those that underpinned the version approved by Cabinet in 2020. This has been rejected as it would result in the BP not reflecting the most up to date policies, strategies, and research on the conditions of the local housing and land markets. The plan would therefore not be able to deliver services in a way that is viable, maintain services and service the debts taken on by the Council.

3.2 Members could choose to vary the assumptions within the HRA BP or agree alternative policies, service standards and investment options. If these alternative options were financially viable and deliverable, the HRA BP could be amended. However, officers consider that, given the uncertainties around what will ultimately emerge into legislation from the Housing and Planning Act, it would be prudent to retain the current assumptions and policy positions that underpin the HRA BP at this stage.

4 Consultation and Member's comments

4.1 None.

5 Implications of the proposal

5.1 Legal/Human Rights Implications

5.2 There are no Human Rights Act implications relating to this Business Plan. Legal implications and the associated financial cost of compliance to national housing standards and Government rent policy have been incorporated into the HRA BP.

5.3 Financial

5.3.1 Effective monitoring and forecasting of expenditure and income is a fundamental part of the proper financial management of the Council, enshrined within the Code of Financial Practice and the monthly Budget Review process.

5.3.2 Under the 'Self Financing' regime the Council took on £136.2m of debt in return for the ability to locally determine decisions on future investment in the housing stock, management services and building the financial capacity to provide new homes. It is essential to project income and expenditure over the full 50-year plan rather than the 5-year period used for the Medium-Term Financial Strategy, although actual investment programmes will continue to be managed and monitored on shorter periods.

5.3.3 A series of informed assumptions underpin the income and expenditure projections and changes to these provide the basis for revisions to the HRA BP. For example, the Council currently owns approximately 5,462 socially rented, affordable rent homes and shared ownership properties as shown in appendix 5. Sale of properties impacts on both income and expenditure – there is a marginal reduction in maintenance and improvement costs, which fluctuate through the plan period, and a more significant one in terms of lost rental income which is fixed throughout the plan period and projected to increase annually. It has been assumed that the number of Right to Buy (RTB) sales will be impacted by Covid-19 and will reduce to 28 units for the next 3-5 years but will then continue as per current levels at approximately 35 units per year. Sale levels are influenced by the discounts available to tenants, the availability of mortgage finance and the prevailing market prices of homes in the district. The maximum RTB discount that can be offered is currently increased by the CPI level from the previous September. In September 2020 this was 0.7%, therefore the maximum discount that can be given from 6th April 2020/21 is £84,790. The level of discount is typically in line with expected increases in market prices of homes in the District. If any of these factors change the assumption will require further review, hence the need for careful and continual monitoring of the HRA BP's underpinning assumptions.

5.3.4 The revised HRA BP set out at Appendix 2 shows that over the 50-year business plan the Council will suffer a net loss of properties through RTB even if the potential new build numbers, referred to in paragraph 2.1.19 and themselves dependent on a range of financial viability considerations and the availability of suitable development sites, are achieved. However, the viability of the HRA BP is not compromised by this potential net reduction in stock levels and, as options to replace the RTB losses are worked up, there will be a further revision to the BP.

5.3.5 The Major Repairs Reserve (MRR) is used to fund capital repairs of the HRA stock. The contributions to the reserve are based on depreciation calculations.

5.3.6 The HRA Business Plan presents the financial position as at the date reported to Cabinet. The Business Plan includes all pre-approved housing acquisitions and development schemes to date. Reports being presented to February Cabinet in relation to new development schemes and the climate change emergency action plan have been excluded as awaiting approval at the time of writing this report.

5.4 **Council Plan**

5.4.1 **People - Effective Staff** – In line with the recent Housing restructure all staff are properly trained, all staff have the appropriate tools. All staff are engaged, empowered, and supported. The right people are in the right job with the right skills and right behaviours.

5.4.2 **Services** - **Maintain or Improve Services** - Maintain or Improve Services – The HRA Business plan ensure the model is able to focus on our customers' needs, continuously improve our processes Increase the digital provision of services

5.4.3 **Money - Firm Financial Footing over the Longer Term** -Better return/ use of our assets. Full Cost accounting, continued cost management. Maximized income earning opportunities. Seek best value for money.

5.4.4 That the HRA budgets provide the necessary resources to achieve these outcomes which Enable tenants' needs to be met and support improvement of services relating to Council Housing Stock. Setting sufficient budgets and planning for the future ensures the business plan remains viable to meet service provision

5.4.5 A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service.

5.5 **Environmental/Climate Change Implications**

5.5.1 None

5.6 **Analysis of the effects on Equality**

5.6.1 None

5.7 **Data Protection**

5.7.1 None

5.8 **Health and Wellbeing**

5.8.1 None

6 Risk Assessment

6.1 The HRA BP will continue to be regularly monitored and an annual update provided to Cabinet to ensure the financial model remains robust.

6.2 Universal Credit continues to have a gradual impact as full implementation has not been achieved to date due to central Government delays. The initial deadline for implementation was Autumn 2018. Current feedback from the introduction of Universal Credit nationwide has indicted that the number of council tenants in arrears has increased, as well as the average level of arrears, in comparison to tenants who do not receive Universal Credit.

6.3 The bad debt provision within the HR BP had been increased to 2% from 2019/20, as set out in Appendix 1, In 2019/20 this was planned to be revised to 1.6% from April 2020/21 however after considering the impact of Covid-19 and local conditions this will remain at 1.8%. This will be assessed regularly.

6.4 In respect to future borrowing to facilitate house building as per the October 2018 removal of the HRA Borrowing Cap another risk arose relating to the rate at which the Council is able to borrow and the impact to the associated interest that must be paid alongside the repayment of the loan principal. Traditionally the Public Works Loan Board has been the preferred supplier of HRA loans to Councils. In October 2019 the PWLB very unexpectedly increased its interest rate by 1% from 1.8% to 2.8% which was a very large increase. This would have resulted in increased borrowing costs. As an example, a £12m PWLB loan taken at 1.8% over 40 years would have cost £220,800 a year in interest; the 1% increase added a further £120,000 a year. Over the 40 years of the loan that would be an additional £4.8m. As a rule, each £1m borrowed would have cost an extra £10,000 p.a. in interest. However, the PWLB backtracked on this decision and in March 2020 after realising the negative effect this would have on national housebuilding targets so a 1% reduction to this rate was offered exclusively for HRA borrowing. Considering this quick change of policy there is a risk that this could be changed again considering the current economic climate so will need to be monitored closely.

6.5 The interest rate charged by the PWLB fluctuates daily. If borrowing is assessed as the preferred method of funding each scheme will be evaluated on viability including the cost of borrowing and if PWLB rates are deemed to be too high alternative sources of borrowing from other reputable organisations will need to be considered.

6.6 The impact of the Covid-19 Pandemic and the impact on Central and Local Government finances is expected to impact the Economy for the next 3-5 years. There are several potential risks for instance regarding the Government’s ability to continue to support housing development with grants from Home England and the ability to continue to fund Homelessness initiatives. Central Government’s stance on these matters will have to be monitored closely as changes to current arrangements will impact this model negatively.

6.7 The UK left the European Union on the 31st January 2020 resulting in a subsequent transition period up to 31st December 2020. Although Brexit is not expected to immediately impact the BP there could be impacting circumstances that could affect the UK construction industry such as delays on imported construction supplies being received and European labour losses may result in higher construction labour costs. As these outcomes are very uncertain all housing development schemes will be re-appraised and checked for viability regularly.

7 Conclusion/Reasons for the Recommendation

7.1 It is recommended the review of the Housing Revenue Account Business Plan and Housing Improvement Plan revision are approved to enable the budgets to be revised accordingly.

7.2 It is recommended the HRA BP continues to be revised annually

Background papers:

Supporting documents:

- Appendix 1 HRA Business Plan Assumptions
- Appendix 2 HRA Business Plan Projections
- Appendix 3 HRA Business Plan Variances
- Appendix 4 Housing Investment Plan
- Appendix 5 HRA Stock Valuations
- Appendix 6 HRA Rent Arrears and Bad Debts

Report Information Sheet

Please complete and submit to Democratic Services with draft report

Committee/Date	Cabinet – 9 December 2021	
Title of report	Housing Revenue Account Business Plan Review 2021	
Consultations undertaken		
Consultee *required	**Date**	**Details of consultation /comments received**
Ward Member(s)		
Portfolio Holder WDC & SDC *	24/11/21	Councillor Jan Matecki
Financial Services WDC *	26/11/21	Victoria Bamber & Andrew Rollins
Legal Services *		
Other Services		
Chief Cabinet(s)	24/11/21	Chris Elliot
Head of Service(s)	26/11/21	Lisa Barker
Section 151 Officer	24/11/21	Mike Snow
Monitoring Officer		
CMT (WDC)	24/11/21	Andy Jones, Chris Elliot
Leadership Co-ordination Group (WDC)	24/11/21	
Other organisations		
Final decision by this Committee or rec to another Ctte/Council?		Recommendation to :Cabinet / Council ……………………………Committee
Contrary to Policy/Budget framework		No/Yes
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	No	No
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	Yes	Yes
Accessibility Checked?	Yes	File/Info/Inspect Document/Check Accessibility