

This Report will be made public on 06 November 2023



Report Number: **C/23/57**

To: Overview and Scrutiny Committee
Date: 14 November 2023
Status: Key /Non-Key decision
Responsible Officer: Gill Butler, Chief Officer Housing
Jonathan Smith, Chief Accountant, Finance

SUBJECT: HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2023-2053

SUMMARY: This report seeks Cabinet approval for the HRA Business Plan (BP) 30-year model which sets the parameters of the work and spend that is undertaken by the Council's housing team, underpinning every decision taken in the HRA. The BP model aligns with the direction and objectives of the Medium-Term Financial Strategy (MTFS), alongside the commitments of the HRA capital programme and acquisitions and new build ambitions for HRA led housing. The HRA BP ensures that the Council continues to provide a financially balanced housing management service that meets legislation and delivers excellent customer service to our tenants and leaseholders across the district. Once approved by Members, a summary version of the HRA BP will be published in 2024.

REASONS FOR RECOMMENDATIONS: This report and presentation provide Committee with an opportunity to feedback ahead of Cabinet considering the matter 13 December 2023.

RECOMMENDATIONS:

1. To receive and note report C/23/57.
2. To consider the presentation and provide feedback in order to inform a report to Cabinet.

RECOMMENDATIONS TO CABINET:

1. To receive and note report C/23/57.
2. To approve the 30-year HRA Business Plan and financial projections attached at appendix 1.
3. Note that HRA BP financial plan will be referred to Cabinet as part of the 24/25 budget setting process in February 24. The revised business plan will form the basis of future HRA budgets and supersedes any previous BPs or medium-term capital programmes.
4. The revision of the HRA medium-term capital programme and other budget revisions made within this HRA BP now allows for provision of annual resources of £5m (based on current prices), to facilitate the delivery of approximately 20 additional council homes each year, during the first 18 years of this Plan.

5. **Note the HRA priorities and assumptions set out within the HRA BP Report as attached, which mirror those agreed by Members in 2023.**
6. **To note that the report assumptions include recommendations on future Cabinet decisions:**
 - **a future de-pooling of service charges to recoup income that is due to the HRA – a report will be presented to Cabinet in early 2024.**
 - **As set out in the Housing Asset Management Strategy, a disposals policy and financial model will be presented to Cabinet in early 2024. This policy is needed for assessing the economic viability of managing and maintaining individual elements of stock before carrying out work that may not be cost effective (including decarbonisation) and will request that delegated authority is given to Officers within council thresholds.**

BACKGROUND:

- 1.1 The Housing Revenue Account is a ring-fenced account, it sets out the income and expenditure for running the council's own housing stock and closely related services or facilities, provided primarily for the benefit of the Council's own tenants. The main expenditure associated with the HRA includes housing management and maintenance costs, major repairs, loan charges, and depreciation. The main source of income is from tenants' rents and service charges. All borrowing within the HRA is in line with the [CIPFA Prudential Code](#).
- 1.2 Folkestone & Hythe District Council (F&HDC) own and manage approximately 3400 homes. This is broken down by: -
 - Independent Living for older people makes up 18% of our stock – comprising of 615 homes across 14 traditional (Sheltered Housing) schemes.
 - A further 400 homes are known as 'age designated' general needs homes for older or more vulnerable tenants within the main stock.
 - The remainder of our tenanted homes are social rented properties, with just 139 'affordable' rented homes.
 - The housing service also manages 208 leasehold properties and 19 shared ownership properties.
 - There are also a handful of commercial properties within our portfolio.
 - Additionally, the HRA manages 16 pumping stations / water treatment works, primarily on the Romney Marsh.
 - There are approx. 840 garage spaces (this includes some fisherman huts and non-covered parking spaces), owned by the HRA that are rented out to tenants and residents providing some additional income.
- 1.3 The HRA BP informs our priorities for funding from the HRA, delivering the vision; *"To create an excellent housing service - one that is digitally enabled, easy to do business with, and where tenants (customers) are at the heart of everything we do."*
- 1.4 In the context of wider council priorities, the BP sets the parameters of the work and spend that is undertaken by the Council's housing team underpinning every decision taken in the HRA.

- 1.5 The HRA BP is a key document that is even more relevant than previously. With the Social Housing Act and Regulator of Social Housing placing a greater emphasis on tenant satisfaction measures, the HRA must ensure its housing management function is strong and anticipates the needs of residents living in council owned and managed homes. With net zero carbon targets, the green credentials of new build homes and the retrofitting of existing stock also being of paramount importance to the HRA, this report seeks to balance the competing challenges and provide F&HDC with a way forward over the next 5, 10, 20 and 30 years.
- 1.6 F&HDC currently has approximately 1,500 families on the housing waiting list for a suitable council home and this figure is increasing year on year, as last year we only had 419 homes available for applicants to bid for on Homechoice (choice-based letting). This was made up of 315 council homes and 104 Housing Association (Registered Providers).

2. CONTEXT

- 2.1 This business plan is based on the Council's housing strategies and supports the '*Creating Tomorrow Together*' Corporate Plan and service ambitions. The HRA BP looks to focus on meeting statutory and legislative requirements and resident satisfaction by delivering the Council's key priorities:
- **Compliance** - Tenant Health & Safety and wellbeing - **£38million capital investment** over thirty years in disabled adaptations, improving independent living schemes, rewiring, estate improvements and other programmes to benefit tenants.
 - **Housing management**, repairs and ongoing maintenance - **£317million revenue expenditure** over thirty years on managing homes and providing services to tenants; **£187million revenue expenditure** over thirty years on repairs and maintenance of homes.
 - **Decent Homes** - investment and capital Improvements to our stock - **£166million capital investment** over thirty years.
 - **Decarbonisation** – Retrofitting existing homes - **£44million of capital investment** over thirty years.
 - **Acquisitions and contributing to affordable homes New Build** - **£126million capital investment** over an eighteen-year period to deliver 360 new affordable homes, followed by investing a further **£14million** in their capital maintenance.
- 2.2 In the Council's original Healthier Housing Strategy (2018-2023) F&HDC stated an ambition to deliver up to 200 affordable homes through its HRA new build and acquisition programme over the 10-year period. The original HRA BP (2016) was updated in 2020 and at the time included a four-year development ambition of 140 new affordable homes. In 2022 whilst projects such as Highview and Biggins Wood were in progress to deliver on this ambition, in February 2023 due to market conditions, interest and borrowing rates, as well as the cost of the HRA capital investment programme, the HRA new build development plan was paused. Despite these issues, last year the HRA acquisitions /new build programme was able to deliver a total of 19 homes. The Council is due to deliver a further 25 homes in 2023/24, including 5 homes for shared ownership purchase.

- 2.3 Although wider council new homes supply programmes are continuing e.g., 22% of homes built at Otterpool Park will be affordable, these are likely to be supplied in partnership with Housing Associations /subject to section 106 contributions from private housing developments.
- 2.4 The Council has Development Status with Homes England which has enabled F&HDC to access government grants for new development opportunities. The current HRA development programme has now been revised and for projects such as Highview and Biggins Wood, the Council is now acting as facilitators of new development, de-risking the sites and seeking developers or joint venture partnerships that are able to take sites forward and complete on the delivery of new homes.
- 2.5 If the HRA is to review its aspiration for more new homes than currently within the BP, the Council would need to maximise grants along with other funding models. In maximising the affordability of new developments, a variety of funding options including outright sale, first-time affordable homes, shared ownership, life-time homes, extra care schemes, key worker accommodation and affordable (market) rents may need to be considered. The priority for the HRA will always remain for the provision of homes for social rent, but cross subsidy models may be necessary to deliver schemes that are viable.
- 2.6 The current financial criteria for all new HRA homes is to have a notional net present value (NPV) of zero (break-even) over 30 years. However, it is now common to find payback periods of 40-60 years and in some cases even longer. This criterion will need to be reviewed as 30 years is no longer viable with today's build costs / interest rates / Local Housing Allowance rates. Also, as new schemes are designed to Net zero carbon 'in use' standards, they are more costly to build and maintain. Future schemes may need to be mixed-use developments combining affordable housing, shared ownership and outright sale in order to also provide some homes at social rent levels.
- 2.7 Where the HRA already has land and buildings that may be suitable for redevelopment and new housing, the HRA will consider utilising such to put forward small schemes that add to the asset portfolio, whilst retaining existing units at social rent levels. These opportunities will be fully assessed for viability and may form part of a revised new build ambition for 2025-2026.
- 2.8 Consideration may also be given to the disposal of HRA assets that do not fit the future housing portfolio due to demand or maintenance costs. An action in the Housing Asset Management Strategy is to develop and implement an HRA Disposals appraisal scheme - an agreed policy and financial model - for assessing the economic viability of managing and maintaining individual elements of stock before carrying out work that may not be cost effective (including decarbonisation). Following evaluation that considers retention, improvement, potential for redevelopment or disposal, projects that are not viable would be considered by an internal Investment Panel, before being considered through the Council governance route for disposal.
- 2.9 Any disposal of an asset would be ring fenced for HRA capital receipts and used for like for like acquisitions, or new build council homes. In developing the housing portfolio in this way, the HRA will be able to restart a less

ambitious new build programme, alongside acquiring homes on the open market, from housing associations, as well as buying back ex-council stock.

- 2.10 The ongoing risks to the previous F&HDC affordable homes delivery programme have been considered in the HRA Business Plan report and are under constant review. Regular analyses of factors within and outside the Council's control are discussed as part of our ongoing business planning and continue to be assessed, and officers will work to ensure that future goals are met, delivering more whilst budgeting responsibly.

3. FINANCIAL IMPLICATIONS SUMMARY

- 3.1 This paper provides an update to the financial position of the HRA over the next 30 years, based on a range of reasonable assumptions laid out therein, and forecasts that the HRA business plan continues to be a robust and viable business and is able to deliver its key priorities.
- 3.2 Detailed Income and expenditure is set out within sections 7 and 8 of the main HRA BP report. Detailed tables are supplied at appendix 1.
- 3.3 The financial model is a tool for testing existing priorities, the impact of changes in Government policies and changes in key business sensitivities to ensure plans remain affordable over time.
- 3.4 Delivery of new build affordable housing and/ or remodelling of existing stock can be achieved within this BP. Therefore, we have suggested the provision for new build & acquisitions is £5M a year at current prices so it is increased in line with inflation to 2041/42. However, this is more dependent on securing grant funding, HRA cash resources and income such as Right-to-Buy receipts.
- 3.5 The 30-year Business plan assumes that at some point (by year 2025) CPI inflation will fall to around 2% (Bank of England target August '23) from the current level of 6.70%. The majority of local authority borrowing is undertaken from the Public Works Loan Board (PWLB), with current borrowing rates around 6.00%; there is an assumption that in the medium-term (by 2027) this rate will reduce to 5.00% and then a 'new normal' of around 4.5% for the majority of the business plan (from 2030) which will allow F&HDC to reconsider our current level of borrowing to help fund HRA investment in stock and potential new build and acquisitions. This Business plan also models debt repayment commitments (financing costs) to ensure the HRA remains able to meet its obligations.
- 3.6 The total borrowing within the HRA as at April 2023 was £47.4M, the BP therefore assumes an opening debt in 2023/24 of £47.4M and a closing debt for 2023/24 of £50.9M based on the budget for the current financial year.

Financial strategy and business planning

- 3.7 Detailed Income and expenditure is set out within sections 7 and 8 of the main HRA BP report and appendix 1A, the capital programme summary at appendix B and the strategic summary appendix C of the main report.
- 3.8 The summary tables below show that the Council has a reasonably well balanced HRA over a 30-year programme that is able to deliver on the decarbonisation, housing and asset management and the tenant engagement priorities it has set itself over the coming years.

3.9 This report presents Members with these ongoing priorities for the HRA, along with the assessment that the BP debt remains at a manageable level, assuming that income recovery remains at least at the current level.

Income & Expenditure 2023/24 to 2032/33	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	1	2	3	4	5	6	7	8	9	10
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Rental Income	-16,985	-18,300	-18,680	-18,958	-19,378	-19,997	-20,694	-21,416	-22,162	-22,934
Service Charges	-1,099	-1,111	-1,117	-1,535	-1,569	-1,608	-1,648	-1,689	-1,731	-1,775
Other Income	-448	-255	-423	-422	-418	-461	-462	-464	-467	-470
Total Income	-18,532	-19,667	-20,219	-20,915	-21,364	-22,067	-22,804	-23,569	-24,361	-25,179
Repairs & Maintenance	4,355	4,385	4,416	4,528	4,450	4,590	4,734	4,882	5,035	4,983
Management	6,981	7,093	7,164	7,285	7,482	7,707	7,938	8,176	8,421	8,674
Depreciation	3,084	3,187	3,285	3,408	3,569	3,749	3,937	4,135	4,342	4,559
Loan Charges - Interest	1,907	2,389	2,566	2,937	3,318	3,682	3,996	4,303	4,604	4,964
Revenue Contributions	4,358	3,602	2,568	2,783	691	2,199	1,982	1,829	1,689	1,560
Other Expenditure	295	316	324	336	345	358	371	384	398	413
Total Expenditure	20,980	20,971	20,323	21,279	19,857	22,284	22,957	23,709	24,490	25,152
Surplus / Deficit	2,448	1,305	104	363	-1,507	217	153	140	129	-27

Income & Expenditure 2033/34 to 2042/43	2033.34	2034.35	2035.36	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43
	11	12	13	14	15	16	17	18	19	20
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Rental Income	-23,733	-24,558	-25,446	-26,366	-27,317	-28,302	-29,321	-30,377	-31,469	-32,370
Service Charges	-1,819	-1,865	-1,911	-1,959	-2,008	-2,058	-2,110	-2,162	-2,216	-2,272
Other Income	-477	-482	-486	-491	-495	-499	-503	-506	-510	-513
Total Income	-26,029	-26,904	-27,844	-28,815	-29,820	-30,859	-31,934	-33,045	-34,195	-35,155
Repairs & Maintenance	5,140	5,303	5,478	5,659	5,845	6,038	6,238	6,443	6,656	6,875
Management	8,934	9,202	9,478	9,762	10,055	10,357	10,668	10,988	11,317	11,657
Depreciation	4,786	5,024	5,274	5,535	5,810	6,097	6,398	6,713	7,043	7,389
Loan Charges - Interest	5,248	5,526	5,841	6,182	6,543	6,922	7,316	7,728	8,159	8,439
Revenue Contributions	1,587	1,493	1,406	1,313	1,199	1,071	931	781	619	445
Other Expenditure	428	443	460	477	496	514	534	554	575	592
Total Expenditure	26,124	26,991	27,937	28,929	29,948	30,999	32,084	33,206	34,370	35,396
Surplus / Deficit	95	86	93	114	128	140	150	161	175	240

Income & Expenditure 2043/44 to 2052/53	2043.44	2044.45	2045.46	2046.47	2047.48	2048.49	2049.5	2050.51	2051.52	2052.53
	21	22	23	24	25	26	27	28	29	30
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Rental Income	-33,298	-34,252	-35,234	-36,243	-37,282	-38,350	39,448	-40,578	-41,741	-42,936
Service Charges	-2,329	-2,387	-2,446	-2,508	-2,570	-2,635	-2,700	-2,768	-2,837	-2,908
Other Income	-515	-523	-532	-541	-550	-559	-571	-585	-599	-612
Total Income	-36,142	-37,162	-38,212	-39,292	-40,402	-41,544	42,720	-43,932	-45,177	-46,456
Repairs & Maintenance	7,071	7,273	7,481	7,694	7,914	8,140	8,372	8,611	8,857	9,110
Management	12,007	12,367	12,738	13,120	13,514	13,919	14,336	14,767	15,210	15,666
Depreciation	7,684	7,992	8,311	8,644	8,989	9,349	9,723	10,112	10,516	10,937
Loan Charges - Interest	8,565	8,671	8,800	8,905	9,020	9,030	8,975	8,941	8,924	8,909
Revenue Contributions	204	207	236	243	272	293	417	606	776	926
Other Expenditure	607	623	639	656	673	690	707	725	743	762
Total Expenditure	36,139	37,133	38,205	39,263	40,382	41,420	42,531	43,762	45,026	46,310
Surplus / Deficit	-3	-29	-7	-29	-20	-124	-190	-170	-150	-146

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

Gill Butler
Chief Officer, Housing
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The following background documents have been relied upon in the preparation of this report: **HRA BUSINESS PLAN REPORT - OCTOBER 2023 + Appendices.**