

This Report will be made public on 5 March 2019

Report Number **C/18/77**

To: Cabinet
Date: 13 March 2019
Status: Key Decision
Responsible Officer: Sarah Robson, Assistant Director – Strategy, Performance and Communications
Cabinet Member: Councillor Alan Ewart-James, Housing

SUBJECT: Housing Revenue Account Business Plan Update 2019 - 2049

SUMMARY: The Council is required to produce a comprehensive Business Plan for its housing stock. The Business Plan is focused on improving the quality of the Council's landlord services and sets out the investment priorities for its existing Council housing stock. The document also provides details of the Council's new build and acquisition housing programme. In view of policy changes implemented by the Government in 2016, it was necessary to reduce the Council's target to deliver up to 300 homes over the next 10 years, to up to 200 homes over the next 10 years. Further Government Policy Changes announced in late 2018 and the financial position within the HRA, mean that the Council is once again able to increase its delivery target for new builds and the updated Business Plan is based on delivering up to 300 homes. The report also provides an update on the number of homes delivered to date through the programme and also on the number of sites currently in the pipeline.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations below because:

- a) The Council is required by Government to have a comprehensive Business Plan in place for its Housing Stock and other assets within the HRA.
- b) The Council is required to properly plan the repayment of its debt within the HRA. It is essential that it has an effective Business Plan to properly resource its HRA activity.
- c) The Government has announced a number of policy changes in relation to the HRA accounts held by local authorities. It is vital that the Council keeps its HRA Business Plan under ongoing review to ensure that it remains fit for purpose. These changes have significantly impacted on the scale of the Council's new build and housing acquisition programme.

RECOMMENDATIONS:

- 1. To receive and note report C/18/77.**
- 2. To agree the Council should increase the number of homes delivered through its HRA new build and acquisition programme to up to 300 homes over the period to 2025/26 based on the updated Business Plan.**
- 3. To agree that the Cabinet Member for Housing should approve any necessary changes to the text of the HRA Business Plan as necessary due to this change in the new build and acquisition programme.**

DRAFT

1. BACKGROUND

- 1.1 The Council is required to have a comprehensive HRA Business Plan in place to set out its proposals for financing and maintaining its housing stock and other assets held within the HRA.
- 1.2 The Council's HRA is a ring-fenced account held by the Council. It contains all the expenditure and income relating to the 3,397 properties and other assets owned and managed by the Council in its role as a landlord. East Kent Housing delivers the landlord role on behalf of the Council.
- 1.3 Since 2012, the Council has been able to take greater control of the HRA and the rental income it receives from the rented homes it provides due to the introduction of self-financing within the HRA by the Government.
- 1.4 The key strategic objectives of the HRA Business Plan are:
 - To provide high quality affordable homes.
 - To provide an efficient and effective housing management service.
 - To achieve efficiencies in service delivery and invest in service improvement for tenants and leaseholders.
 - To maximise the recovery of rental income.
 - To continue the Council's new build and acquisition programme, delivering affordable homes for rent and shared ownership.
- 1.5 In 2016 the Government announced that Council landlords were required to reduce their general need housing rents by 1% from 2015/16 levels each year for a four year period from 2016/17. Due to the reduced rental income received over the 4 year period, it was necessary to reduce the number of affordable Council homes (for rent and shared ownership purchase) that would be delivered through the new build and acquisition programme over the ten year period 2014/15 to 2024/25. The revised Business Plan, approved by Cabinet in March 2016, agreed delivery of 200 homes between 2016/17 and 2025/26. The required period of rent reductions will come to an end from April 2020 when the current MHCLG proposal is to increase rents by CPI plus 1% for a period of 5 years.
- 1.6 In line with good practice, The HRA Business Plan is subject to ongoing review to ensure that it remains fully fit for purpose. Details of the overall HRA investment in the Council's existing housing stock, including the resources for the housing management and maintenance service, were reported to Cabinet in February 2019 as part of the overall HRA budget setting process for 2019/20. The review has also highlighted that there is potential to increase the number of properties that will be delivered through the Council's new build and acquisition programme over the next 7 years.

2. New Build and Acquisition Programme

- 2.1 To date the Council has delivered 92 additional homes through the Council's new build and acquisition programme, including homes for rent and shared ownership purchase.

2.2 Further sites are in the pipeline over the 7 years which will enable the Council to continue to deliver its new build and acquisition programme. The pipeline sites at this time are as follows:

- Highview School - 35 units (completion date subject to planning)
 - Princess Street - 8 units (completion date 2019)
 - Fernfield Lane - 6 units
 - Other sites - 80 units
- Total units 129**

It is proposed that approximately 30 of the homes above will be provided for shared ownership purchase.

2.3 In October 2018 the Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. In view of this announcement, the current financial position within the HRA and the projections going forward, it is now possible for the Council to again increase the number of additional affordable Council homes that will be delivered through the new build and acquisition programme. The programme will include units for affordable rent and shared ownership purchase.

2.4 The updated Business Plan models delivery of 300 homes within the approved period up to 2025/26. To reach the 300 target an additional 79 homes will need to be delivered. For the purposes of modelling the profiled delivery of these units is as follows:

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Units	12	15	20	20	12	79
Cost £m	2,040	2,550	3,400	3,400	2,040	13,430

2.5 In order to fully deliver the programme, it will be necessary for the Council to identify a number of additional sites or properties for conversion purposes.

2.6 If the proposed increase in the number of homes is agreed by Cabinet, the text within the Council's HRA Business Plan will be updated to reflect this change. Any changes to the text will be approved by the Cabinet Member for Housing.

3. Resourcing the Business Plan

3.1 The main source of income within the HRA is the rents paid by the Council's tenants.

3.2 The Council also receives income for services provided that are not already covered by its rental charges, such as communal area cleaning charges and heating charges.

3.3 The current agreed Business Plan includes external borrowing of £12.1m to deliver 200 homes. The revised Business Plan shows a total of £20.8m external borrowing will be required over an eight year period (starting in

2022/23) to resource the increased new build programme of 300 homes. This is an additional borrowing requirement of £8.7m. The Business Plan has assumed that this will be financed from new treasury loans which will be repaid by 2042/43, ensuring that the HRA maintains a minimum reserve balance of £2m.

Actual loan amounts, interest rates and repayment dates will vary subject to actual new build schemes available to the Council.

3.2 Existing loans within the HRA will continue to be repaid upon maturity and 94% of the total HRA debt will be repaid within the approved 30 year period (2045/46) and the HRA will be debt free by 2055/56.

4. Expenditure within the HRA

4.1 The main costs for the Council in terms of the management of its housing stock are:

- The management fee paid to East Kent Housing
- The insurance costs associated with the housing stock
- The cost of grounds maintenance services

4.2 The Council also incurs costs within the HRA for the provision of its responsive repairs service. An effective and efficient repairs service has a significant impact on overall levels of tenant satisfaction and is further priority of this plan.

4.3 In addition to this revenue expenditure, the Council also has a programme of capital expenditure to maintain the condition of its housing stock on a programmed basis. The Business Plan includes details of the proposed capital expenditure programme based on the stock condition survey undertaken in 2016/17.

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks to the Council is shown below:

Perceived risk	Seriousness	Likelihood	Preventative action
Insufficient resources within the HRA to deliver the new build and acquisition programme.	High	Low	HRA Business plan is subject to ongoing review to ensure that it remains fully fit for purpose and is developed in line with Government best practice.
The impact of further Government	High	Medium	The ongoing review of this business plan to

policy changes which impact on the delivery of this business plan.			ensure that it remains fit for purpose.
--	--	--	---

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (DK)

There are no legal implications arising directly out of this report. Cabinet must be aware that the implementation of the housing development program anticipated by this report will be conditional upon receipt of unqualified planning permission and any community opposition having been successfully addressed.

6.2 Finance Officer's Comments (CI)

The financial issues and associated risks are addressed in the report. The updated HRA Business Plan has been jointly developed by the Housing Strategy Manager and Chief Accountant.

6.3 Diversities and Equalities Implications (AH)

The HRA Business Plan is subject to ongoing review. No negative diversities and equalities impacts have been identified to date.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Adrian Hammond (Housing Strategy Manager)

Telephone: 01227 853392

Email: Adrian.hammond@folkestone-hythe.gov.uk

Cheryl Ireland (Chief Accountant)

Telephone: 01303 853213

Cheryl.ireland@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Updated Folkestone & Hythe HRA Business Plan 2019 – 2049

Appendices:

Appendix 1: Detailed revenue and balance projections

Appendix 2: Capital Expenditure Forecasts

Appendix 3: Forecast Debt Profile

Appendix 4: Forecast HRA Balances

DRAFT

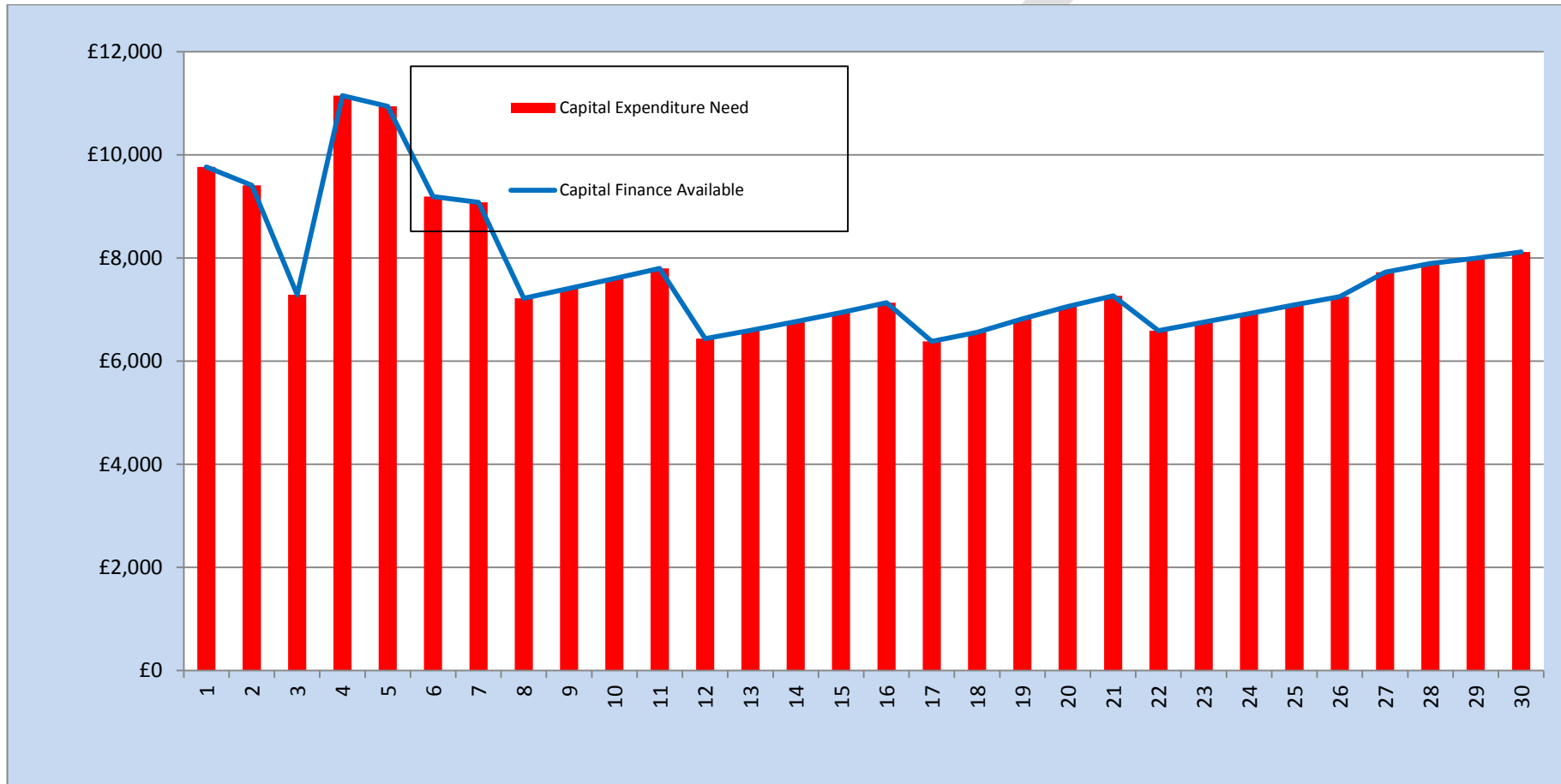
Appendix 1

HOUSING REVENUE ACCOUNT PROJECTIONS

Folkestone & Hythe District Council

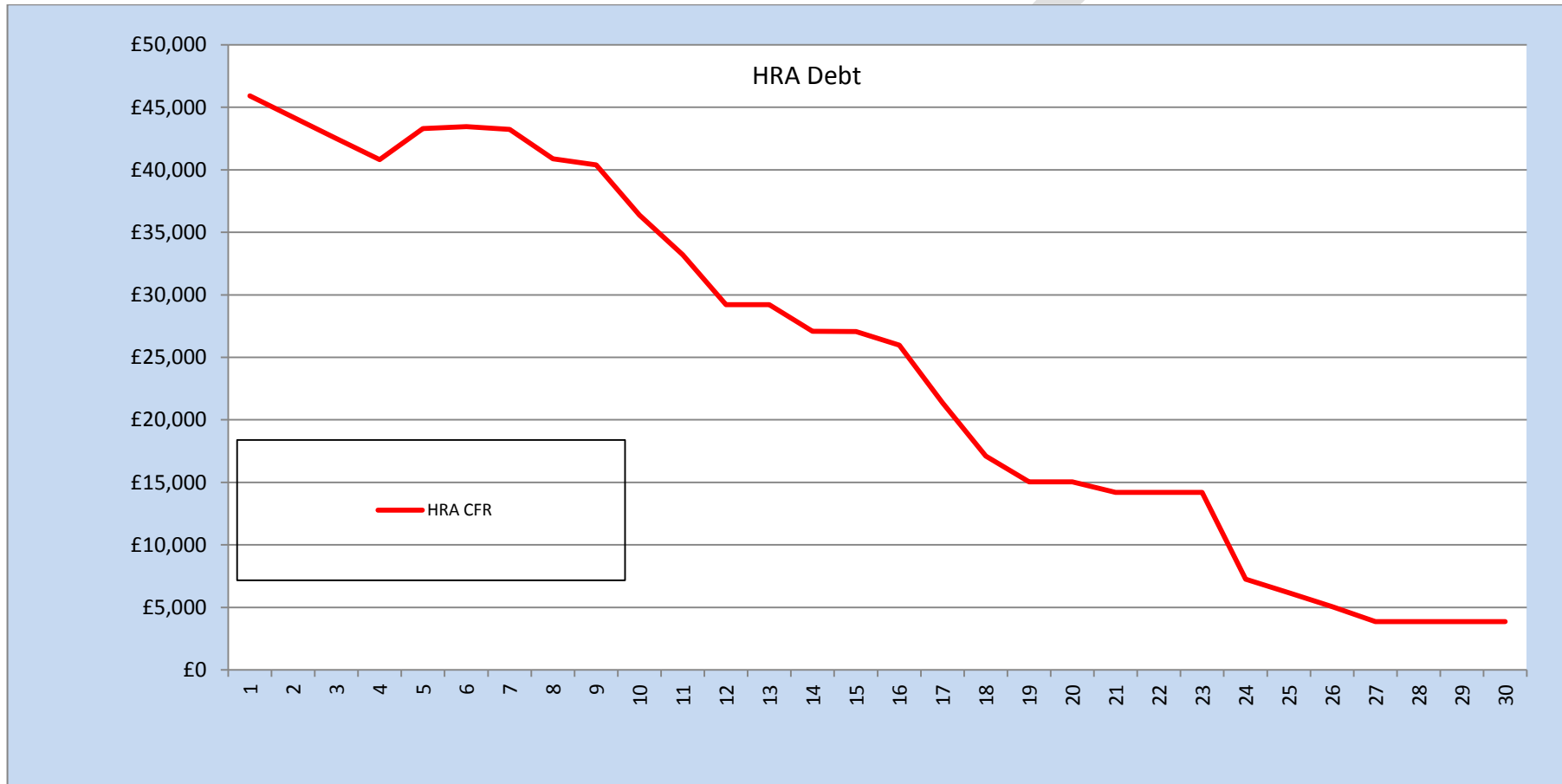
Year	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029-34	2034-39	2039-44	2044-49
£'000	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30
INCOME:														
Rental Income	14,898	15,315	16,004	16,495	17,246	17,944	18,467	18,954	19,385	19,838	106,335	118,984	133,079	149,143
Void Losses	-55	-77	-82	-85	-90	-95	-98	-101	-103	-106	-567	-635	-711	-797
Service Charges	985	1,005	1,025	1,046	1,067	1,088	1,110	1,132	1,155	1,178	6,251	6,902	7,620	8,413
Non-Dwelling Income	355	362	369	377	384	392	400	408	416	424	2,252	2,487	2,745	3,031
Grants & Other Income	52	53	54	55	57	58	59	60	61	62	331	366	404	446
Total Income	16,236	16,658	17,371	17,888	18,663	19,387	19,938	20,453	20,914	21,396	114,602	128,102	143,137	160,236
EXPENDITURE:														
General Management	-3,308	-3,374	-3,441	-3,510	-3,580	-3,652	-3,725	-3,799	-3,875	-3,953	-20,983	-23,166	-25,578	-28,240
Special Management	-1,055	-1,076	-1,098	-1,120	-1,142	-1,165	-1,188	-1,212	-1,236	-1,261	-6,692	-7,389	-8,158	-9,007
Other Management	-22	-22	-23	-23	-24	-24	-24	-25	-25	-26	-138	-152	-168	-186
Rent Rebates	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bad Debt Provision	-90	-153	-199	-157	-164	-171	-176	-181	-185	-189	-1,013	-1,134	-1,268	-1,421
Responsive & Cyclical Repairs	-3,548	-3,637	-3,728	-3,821	-3,917	-4,021	-4,173	-4,287	-4,442	-4,588	-24,850	-28,101	-31,764	-35,905
Total Revenue Expenditure	-8,023	-8,262	-8,489	-8,631	-8,827	-9,033	-9,286	-9,504	-9,764	-10,017	-53,676	-59,942	-66,936	-74,759
Interest Paid	-1,566	-1,516	-1,475	-1,479	-1,503	-1,494	-1,464	-1,380	-1,252	-1,239	-4,689	-3,229	-2,280	-1,009
Finance Administration	-22	-22	-23	-24	-26	-26	-26	-26	-26	-26	-139	-154	-170	-187
Interest Received	75	121	92	54	25	25	26	28	41	45	405	1,488	3,301	5,733
Depreciation	-2,527	-2,654	-2,713	-2,838	-2,948	-3,030	-3,102	-3,158	-3,216	-3,276	-17,333	-19,033	-20,899	-22,980
Net Operating Income	4,173	4,324	4,763	4,970	5,384	5,830	6,085	6,414	6,698	6,882	39,170	47,232	56,154	67,034
APPROPRIATIONS:														
FRS 17 /Other HRA Reserve Adj	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Contribution to Capital	-3,862	-7,034	-5,906	-9,803	-5,309	-5,811	-6,011	-6,410	-4,693	-8,326	-26,514	-26,955	-22,592	-18,282
Total Appropriations	-3,862	-7,034	-5,906	-9,803	-5,309	-5,811	-6,011	-6,410	-4,693	-8,326	-26,514	-26,955	-22,592	-18,282
ANNUAL CASHFLOW														
	312	-2,710	-1,143	-4,833	75	18	74	4	2,006	-1,444	12,655	20,277	33,562	48,753
Opening Balance	10,337	10,648	7,938	6,796	1,962	2,037	2,055	2,130	2,133	4,139	2,695	15,351	35,628	69,190
Closing Balance	10,648	7,938	6,796	1,962	2,037	2,055	2,130	2,133	4,139	2,695	15,351	35,628	69,190	117,943

Analysis of Capital Expenditure Need v Capital Financing Allocated



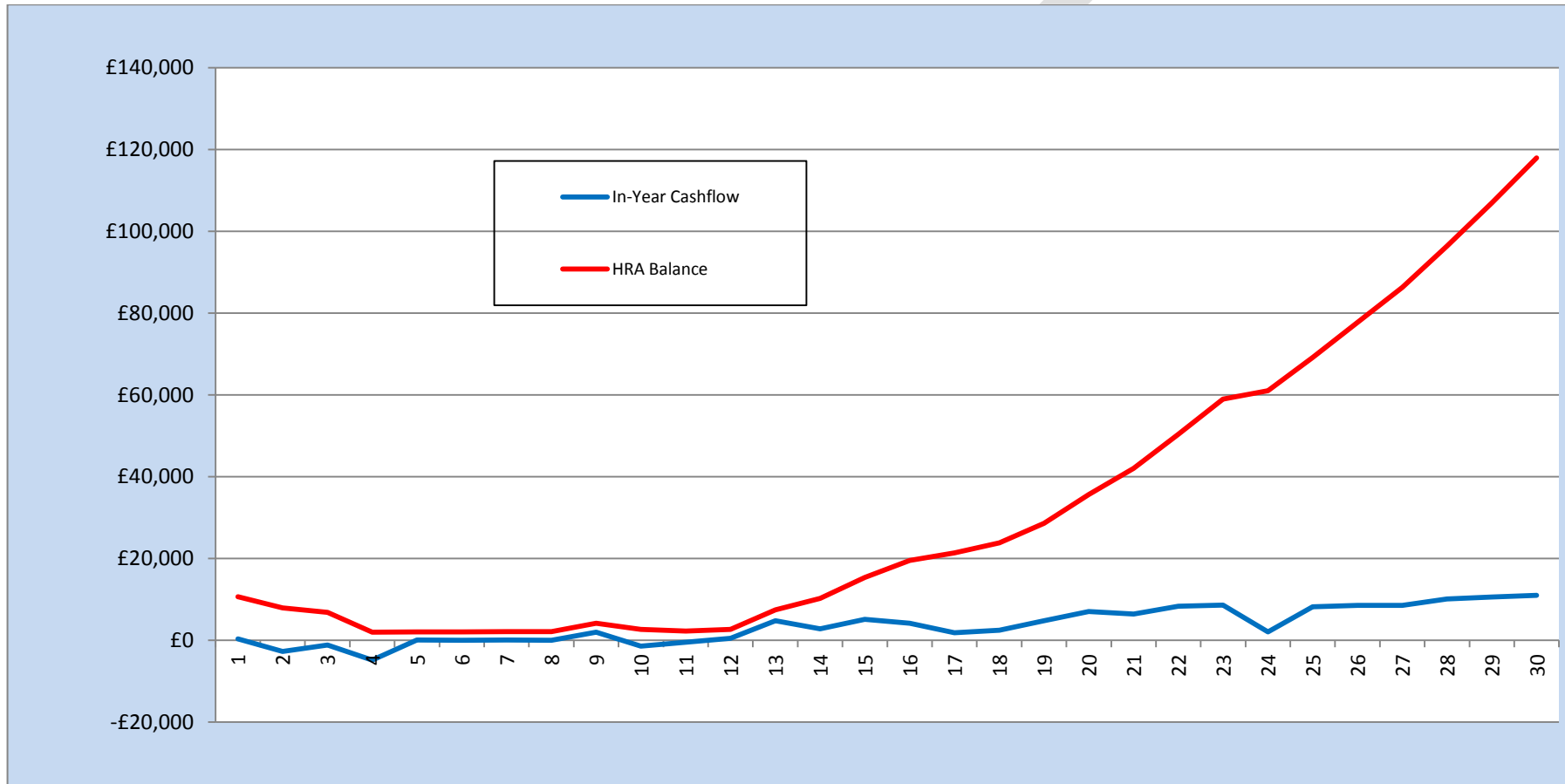
The above graph shows the amount of capital expenditure needed over the lifetime of the business plan and the necessary funding allocated. The graph shows that there is sufficient funding available to meet the needs of the programme.

Analysis of HRA Debt Profile



The above graph shows the level of debt required to enable the full programme to be delivered. The debt increases in year 5 and then steadily reduces from year 7 as loans start to mature. The graph shows that the majority of debt will be paid off by year 27.

Analysis of HRA Cash Flow over life of Business Plan



The above graph shows that the HRA balance is just above the minimum required balance of £2m until approximately year 13 (2031/32), and then balances will begin to accrue within the HRA. This reflects the point when the majority of the loan portfolio will have matured. This includes the repayment of the modelled additional loans.