

This Report will be made public on 11 February 2019



Report Number **C/19/67**

To: Cabinet
Date: 19 February 2020
Status: Key Decision
Responsible Officer: Tim Madden, Director of Transformation and Transition (Acting Director of Place)
Cabinet Member: Councillor David Monk, Leader of the Council and Councillor Godfrey, Housing, Transport and Special Projects

SUBJECT: Housing Revenue Account Business Plan Update 2020 - 2050

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 2018 to abolish the HRA borrowing cap, it was possible for the Council to increase its delivery target for new builds and the Business Plan was revised to deliver up to 300 homes by 2024/25. Following further reviews of the HRA financial position, its borrowing capacity and the Council's priorities the Business Plan has been updated to deliver a further 1,000 homes over the 10 year period from 2025/26 to 2034/35. The revised Business Plan also includes capital investment of £10m into existing housing stock. This report provides the details supporting the updated plan.

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/19/67.**
- 2. To agree the Council should increase the number of homes delivered through its HRA new build and acquisition programme to up to 1,200 homes over the period from 2020/21 to 2049/50 based on the updated Business Plan.**
- 3. To agree the Council should invest £10m into existing housing stock.**
- 4. To agree that an update to the text of the HRA Business Plan be considered by Full Council in June.**

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 3,395 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 although this is currently subject to review.
- 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 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 HRA Business Plan was reviewed and the Council was able to increase the number of additional affordable Council homes to be delivered through the new build and acquisition programme from 200 to 300. The programme includes units for affordable rent and shared ownership purchase.
- 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 January as part of the overall HRA budget setting process for 2020/21. 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.

2. New Build and Acquisition Programme

- 2.1 To date the Council has delivered 100 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 next 4 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 subject to planning)
- Fernfield Lane - 6 units (completion date to be confirmed)
- Biggins Wood - 25 units (completion date to be confirmed)
- Ship Street - 30 units (completion date to be confirmed)
- Princes Parade - 30 units (completion date to be confirmed)
- Littlestone - 14 units (completion date to be confirmed)
- Total units 140**

Subject to overall viability within the programme it is envisaged that approximately 37 of the homes above will be provided for shared ownership purchase.

2.3 Following a further review of the current financial position within the HRA and the projections going forward in light of the removal of the borrowing cap, there is an opportunity for the Council to expand its new build programme to significantly increase the number of new homes in the district. The programme will include units for affordable rent and shared ownership purchase.

2.4 The updated Business Plan models delivery of 1,200 homes within the period up to 2034/35. For the purposes of modelling the profiled delivery of these units is as follows:

	2020/21	2021/22	2022/23	2023/24	2024/25
Units	65	26	55	40	14

	2025/26	2026/27	2027/28	2028/29	2029/30
Units	100	100	100	100	100

	2030/31	2031/32	2032/33	2033/34	2034/35	Total
Units	100	100	100	100	100	1,200

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. Whilst in principle it is possible to deliver the 1,200 homes over the next 15 years, it is not possible to provide a precise timeframe as this will be subject to the Council securing the necessary sites/properties for conversion.

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 minor interim changes to the text will be approved by the Cabinet Member for Housing, Transport and Special Projects and the wider business plan document will be reviewed and reported back to Full Council in June.

3. Capital Investment

- 3.1 Following a consultation with tenants around the future of East Kent Housing, it is likely that the housing management service will be brought back in-house. It may be necessary to make a significant investment in the existing housing stock.
- 3.2 The updated plan includes additional funding of £10m to be made available from 2020/21 to be spent on an enhanced capital programme over the three years up to 2022/23, the first £3.5m of this has been identified in the HRA 2020/21 Budget paper.

3. Resourcing the Business Plan

- 3.1 The main source of income within the HRA is the rents paid by the Council's tenants. 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. The required period of rent reductions will come to an end from April 2020 when councils can increase rents by CPI plus 1% for a period of 5 years. This increase in income has supported the increase in new build expenditure.
- 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 £20.8m to deliver 300 homes. The revised Business Plan requires a total of £248.9m external borrowing over a 13 year period (starting in 2021/22) to resource the increased new build programme of 1,200 homes and capital investment into existing stock. This is an additional borrowing requirement of £228.1m. The Business Plan has assumed that this will be financed from new treasury loans which will be repaid upon maturity, ensuring that the HRA maintains a minimum reserve balance of £2m. The long-term debt will be managed as part of the Council's debt portfolio.

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 approximately 50% of the total HRA debt will be repaid within the 30 year life of the plan (2049/50) and approximately 75% will be repaid by 2055/56.
- 3.3 Additional staffing capacity will be required to deliver the uplifted programme and costs for additional resources have been factored into the model.

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 policy changes which impact on the delivery of this business plan.	High	Medium	The ongoing review of this business plan to ensure that it remains fit for purpose.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (NE)

The Council, as a local housing authority, must maintain a Housing and Revenue Account in accordance with s74 of the Local Government and Housing Act 1989. The HRA must include sums falling to be credited or debited in accordance with the category of properties listed in s74(1) which consists primarily of Council housing stock. HRA must include any capital expenditure on housing stock which a local authority has decided to charge to revenue. Save in accordance with a direction of the Secretary of State, sums may not be transferred between HRA or General Fund therefore HRA is ring-fenced and cannot be used to subsidise a budget deficit within

General Fund, neither can General Fund be used to subsidise a budget deficit in HRA. S76 of the 1989 Act requires local authorities to formulate and implement proposals to secure HRA for each financial year does not show a debit balance. If a debit occurs, this must be carried forward to the next financial year.

Cabinet must be aware that the implementation of the housing development programme anticipated by this report will be conditional upon receipt of unqualified planning permission.

6.2 **Finance Officer's Comments (CI)**

The financial issues and associated risks are addressed in the report.

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

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

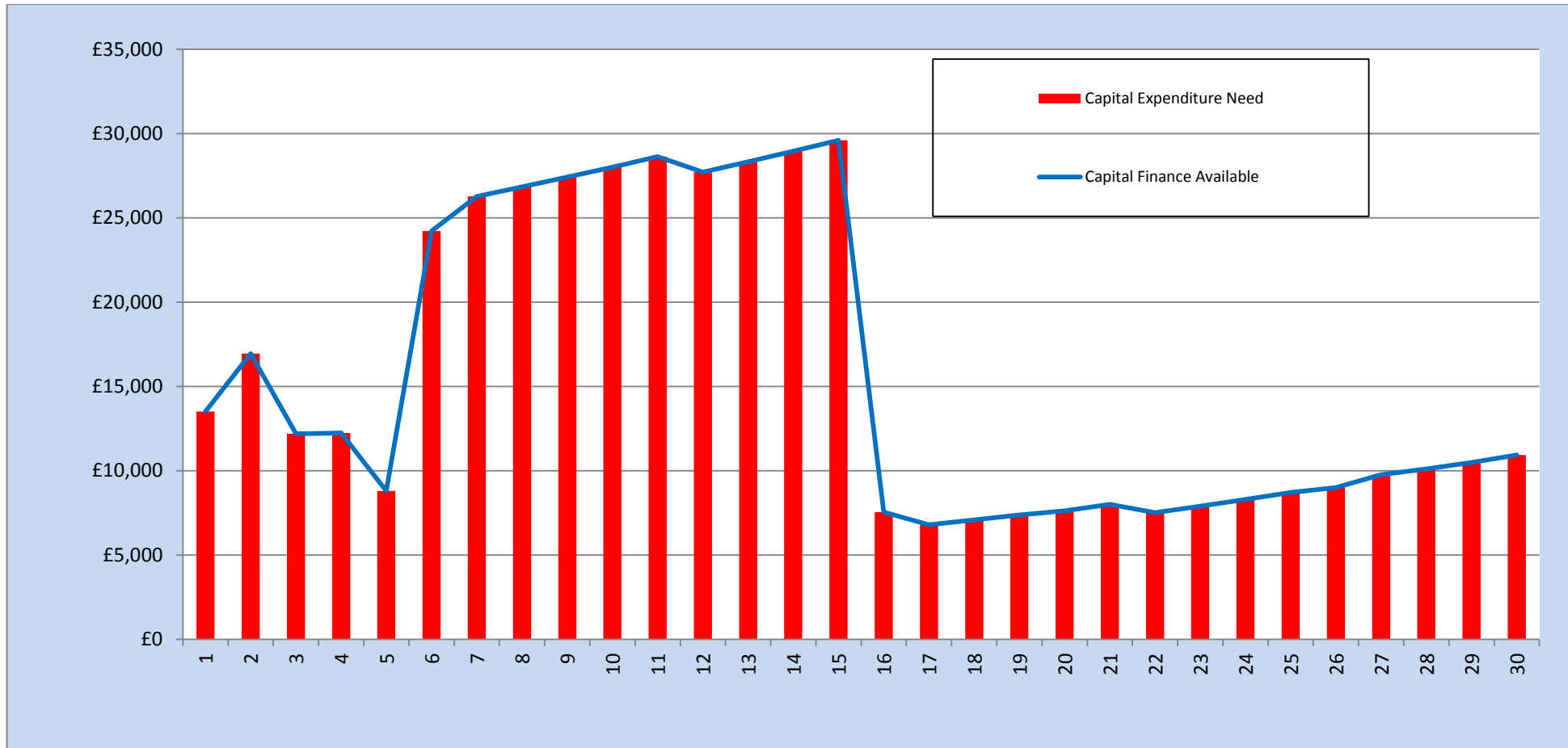
Appendix 1

HOUSING REVENUE ACCOUNT PROJECTIONS

Folkestone & Hythe District Council

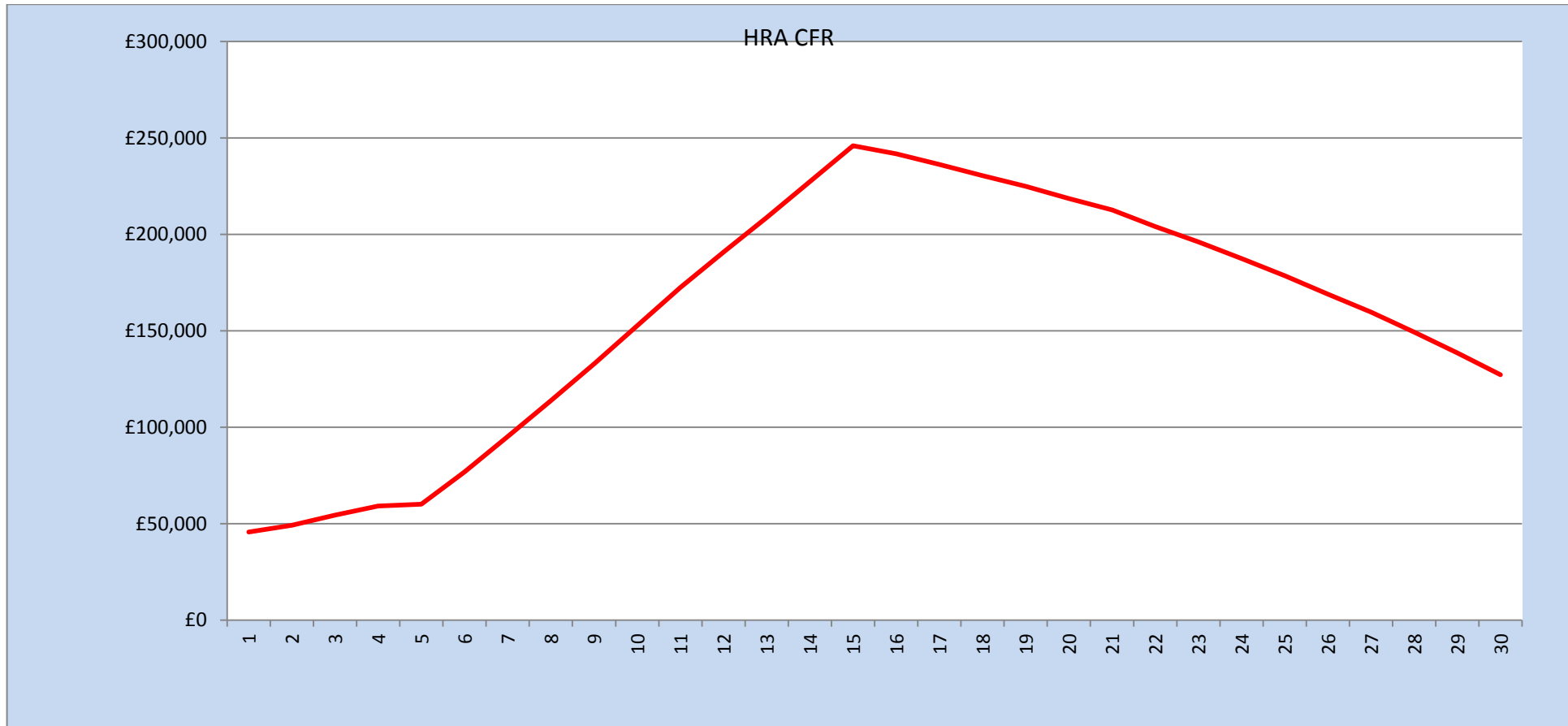
Year	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2029-34	2034-39	2039-44	2044-49	
£'000	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	
INCOME:															
Rental Income	15,013	15,742	16,302	17,045	17,737	18,222	19,263	20,355	21,501	22,692	132,970	161,469	181,259	203,768	
Void Losses	-75	-80	-84	-89	-94	-97	-105	-114	-124	-133	-828	-1,054	-1,185	-1,334	
Service Charges	1,010	1,030	1,051	1,072	1,093	1,115	1,137	1,160	1,183	1,207	6,406	7,073	7,809	8,622	
Non-Dwelling Income	342	349	356	363	371	378	386	393	401	409	2,172	2,398	2,648	2,923	
Grants & Other Income	52	53	54	55	57	58	59	60	61	62	331	366	404	446	
Total Income	16,343	17,094	17,679	18,446	19,163	19,675	20,739	21,854	23,023	24,237	141,051	170,252	190,934	214,425	
EXPENDITURE:															
General Management	-4,080	-4,161	-4,245	-4,330	-4,416	-4,504	-4,595	-4,686	-4,780	-4,876	-25,881	-28,575	-31,549	-34,833	
Special Management	-1,036	-1,057	-1,078	-1,100	-1,122	-1,144	-1,167	-1,190	-1,214	-1,238	-6,574	-7,258	-8,013	-8,848	
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	-151	-157	-203	-162	-169	-174	-184	-194	-206	-217	-1,276	-1,554	-1,744	-1,961	
Responsive & Cyclical Repairs	-3,787	-3,882	-3,979	-4,078	-4,180	-4,338	-4,469	-4,627	-4,777	-4,909	-27,878	-34,103	-39,577	-44,587	
Total Revenue Expenditure	-9,075	-9,280	-9,527	-9,693	-9,910	-10,185	-10,438	-10,723	-11,003	-11,266	-61,747	-71,641	-81,052	-90,414	
Interest Paid	-1,543	-1,391	-1,547	-1,688	-1,730	-2,171	-2,714	-3,172	-3,853	-4,736	-30,916	-35,823	-30,988	-23,814	
Finance Administration	-4	0	-2	-3	-2	-7	-8	-7	-8	-12	-15	0	0	0	
Interest Received	76	36	14	14	14	16	17	17	18	19	89	95	108	113	
Depreciation	-2,565	-2,728	-2,853	-2,961	-3,035	-3,239	-3,450	-3,670	-3,899	-4,136	-24,518	-28,832	-31,716	-34,920	
Net Operating Income	3,232	3,731	3,765	4,115	4,501	4,090	4,145	4,299	4,277	4,105	23,943	34,052	47,287	65,389	
APPROPRIATIONS:															
FRS 17 /Other HRA Reserve Adj	195	195	199	203	207	211	215	220	224	228	1,213	1,339	1,478	1,632	
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Revenue Contribution to Capital	-6,805	-10,224	-3,904	-4,296	-4,698	-3,974	-4,291	-4,532	-4,398	-4,134	-25,362	-34,919	-48,812	-66,646	
Total Appropriations	-6,610	-10,029	-3,705	-4,093	-4,491	-3,763	-4,076	-4,312	-4,174	-3,906	-24,149	-33,580	-47,334	-65,013	
ANNUAL CASHFLOW	-3,378	-6,298	60	22	10	326	69	-13	103	200	-206	472	-47	375	
Opening Balance	11,665	8,288	1,989	2,049	2,071	2,081	2,408	2,477	2,464	2,568	2,767	2,561	3,033	2,987	
Closing Balance	8,288	1,989	2,049	2,071	2,081	2,408	2,477	2,464	2,568	2,767	2,561	3,033	2,987	3,362	

Analysis of Capital Expenditure Need v Capital Financing Allocated



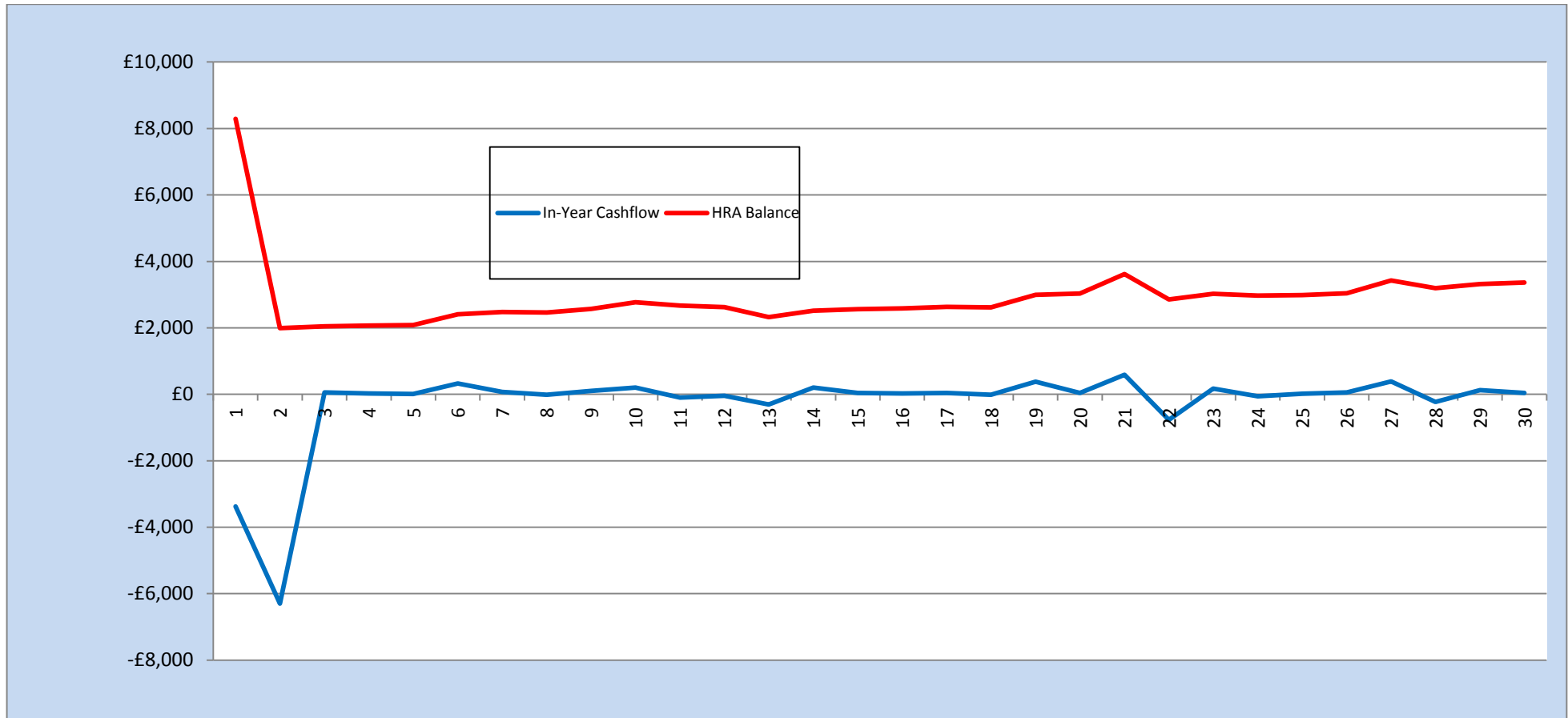
The above graph shows the amount of capital expenditure needed over the lifetime of the business plan and the necessary funding allocated. The graph shows that there is sufficient funding available to meet the needs of the programme.

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 up to year 15 to support the period of new build delivery and then steadily reduces as loans start to mature.

Analysis of HRA Cash Flow over life of Business Plan



The above graph shows that the HRA balance is maintained above the minimum required balance of £2m throughout the life of the plan. Balances slowly begin to accrue within the HRA from year 18 (2037/38), when the new build expenditure has ceased and the loan portfolio begins to mature. This includes the repayment of the modelled additional loans.