

## Housing Revenue Account (HRA) Business Plan

Meeting: Communities and Housing Scrutiny Committee

Date Of Meeting: 8 October 2024

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Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

### 1.0 Purpose of Report

- 1.1 The purpose of this report is to update the Committee on the approach and progress being made in developing a 30-year Housing Revenue Account (HRA) Business Plan. The HRA Business Plan will set out the Council's strategy for spending and borrowing to maintain its housing stock and operate services for its tenants and leaseholders. As with any other business plan, it must show that the council has clear proposals for achieving its objectives and that these are financially viable in the short, medium and long term.
- 1.2 By bringing this update through Scrutiny at an early stage, the Committee will better prepared to scrutinise to draft Business Plan when it comes through the Committee in November 2024.

### 2.0 Recommendations

- 2.1 The Committee/Council is requested to:

**RESOLVE THAT** the report be noted.

### 3.0 Proposal and Outcome

- 3.1 The Committee is invited to note the approach being taken and progress being made in developing a 30-year Housing Revenue Account (HRA) Business Plan.
- 3.2 The desired outcome is that through early involvement in the business planning process, the Committee will be able to more effectively scrutinise the draft HRA Business Plan when it comes forward later this year.

### 4.0 Background

- 4.1 The Local Government and Housing Act 1989 requires stock holding councils to operate a Housing Revenue Account (HRA) which records separately to any other Council services operated within the General Fund, the income and expenditure on services which are provided primarily for the benefit of the Council's own tenants.
- 4.2 The Localism Act 2011 introduced a new way for local authorities to develop and maintain their council housing. Self-financing arrangements came into effect from March 2012, doing away with the previous system of government grants, to allow councils to keep all their tenants' rent – the Housing Revenue Account (HRA) – and pay for the upkeep of their homes. The

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Settlement Payments Determination 2012 introduced a requirement for stock holding local authorities to produce a 30-year HRA business plan.

- 4.3 Having an up-to-date HRA Business Plan based on robust assumptions and an underlying financial model forms the basis of good governance and sound financial management. It demonstrates that the Council is prioritising and spending residents' rent and service charges, and debt secured against these, effectively and achieving value for money.
- 4.4 Whilst the Council historically maintained a 30-year HRA financial model, this was not reported to Council or used to formulate a long-term plan. The Government External Assurance Review (May 2023) identified that "No 30-year business plan exists for the HRA. It is important that the 30-year business plan is prepared and used to assess the long-term viability of the current HRA arrangements. The business plan will need to address the impact of the reduction in housing stock on the longer-term viability of the HRA."
- 4.5 The Government Review Team recommended that the Council "prepare a 30-year Housing Revenue Account (HRA) Business Plan and takes steps to ensure the current HRA is in balance". This work forms part of the Council's Improvement and Recovery Plan (IRP), sitting under both the Finance and Housing Improvement workstreams.

### 5.0 Options Considered

- 5.1 The HRA Business Plan is an established project forming part of the Council's Improvement and Recovery Plan (IRP). Developing an HRA Business Plan is a requirement both in legislation and the Government intervention. The Council has chosen to secure external specialist consultancy support to aid the development of the HRA Business Plan, but an alternative, could have been to produce this in-house. This was iscounted due to limited capacity within the Finance team, lack of business planning experience in the Council and the need to draw on industry expertise in order to deliver a robust plan.
- 5.2 The Business Plan could have come to the Committee as a finished draft document later in the year. However, given this is a relatively new process for the Council, this report was considered an opportunity to develop the Committee's understanding in advance of consideration of the draft plan.

### 6.0 Business Planning Process

- 6.1 In February 2024, the Council sought fee proposals from specialist housing finance consultants to deliver a tried-and-tested HRA 30-year financial model. The brief was to:
  - Provide and populate the initial model, using the authority's data.
  - Develop a set of agreed assumptions with council officers.
  - Reconcile the initial short- and medium-term modelling results with council budgets.
  - Carry out officer briefings on the modelling results.
  - Supply the underlying financial model for long-term use by the Council.
  - Familiarise staff and provide training in the use of the model for the authority's finance team.
  - Support undertaking sensitivity and scenario analysis during the project.
  - Provide strategic advice on the risks and opportunities identified through the modelling, using experience, expertise and intelligence from the consultancy team and its wider network.
  - Facilitate participation in relevant user forums discussing improvement that can be made to the model, sharing ideas about creating capacity within the HRA and benchmarking with other local authorities.

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- 6.2 The Council received 4 fee proposals which were evaluated by officers from Housing and Finance. Following a demonstration of the model, Housing Finance Associates Ltd (HFA) were appointed in March 2024.
- 6.3 Housing Finance Associates is a specialist consultancy, providing financial modelling and associated support to housing authorities in England. The consultancy works with a wide range of local housing authorities, of all types and sizes and has a team of highly experienced HRA finance consultants. The Housing Finance Associates local authority HRA model (LAHRA) is a leading MS Excel-based financial model, which has been purpose-built to provide dynamic projections that update in real time. It has been designed so that, once implemented, it makes use of standard reports that the authority already produces. This makes it easier for key inputs to be updated – for example, when refreshing income and expenditure projections at the end of the authority's regular financial monitoring process.
- 6.4 Between April and June 2024, the consultants gathered data inputs from the Council, including the 2023/24 draft outturn; 2024/25 budget; forecasts and data on stock condition investment requirements. They have then combined this with official projections (such as, inflation, building costs and interest rates), intelligence from other local authorities and other agreed assumptions. These have included the Council's expectations around voids losses, new build and acquisitions, capital receipts and use of rent flexibility.
- 6.5 The Council has recently commissioned a new 100% stock condition survey, but the data and analysis from this work will not be available until early 2025. This will not be in time for this iteration of the Business Plan, but it will need to be incorporated in the future. Therefore, for the purposes of the Business Plan, older stock condition data (typically from a rolling programme of surveys between 2016-2021) and in-house asset information has been used. This identifies a substantial backlog in capital investment required to the housing stock.
- 6.6 In July 2024, the consultants presented their baseline model to officers and commissioners. The baseline assumes that the capital backlog is largely addressed in a single year (2025/26), resulting in a sharp spike in expenditure and associated debt. It does not include any significant investment in decarbonisation. The initial baseline is clearly unaffordable throughout the period with the HRA falling into deficit in 2027/28. The charts in Appendix 1 show the initial baseline position. This is clearly an unsustainable position and highlights the urgent mitigating action required to improve the financial health of the HRA.
- 6.7 The consultants proposed an affordable alternative scenario, which is also shown in the charts in Appendix 1. In the Affordable model, the consultants have assumed:
- The Council aims to rebuild a healthier minimum balance of £500/unit from 2025/26 (plus inflation), compared to £100-150/unit applied for the last 10 years plus.
  - The Council has historically made minimal use of the permitted rent flexibility. The model proposes rent flexibility is extended to 50% of re-lets from 2025/26. This will require a Rent Policy to set out and justify the circumstances when rent flexibility will be applied, which will be subject to consultation. It would not apply to existing tenancies.
  - Variable costs be introduced to the HRA budget model to reflect stock acquisitions and disposals.
  - Revenue cost savings of 2% per annum be applied for 5 years from 2025/26.
  - The stock investment spike in 2025/26 be smoothed over 9 years and major works investment reduced by £3 million per annum from 2025/26. Whilst this will not address the full backlog, investment levels are still forecast to continue at a significantly higher level than in the past decade.
  - Capital investment in external works be reduced by £0.6 million per annum from 2025/26.
  - The Council gradually increases leaseholder contributions towards capital works by £50,000 per annum for 5 years from 2025/26.

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6.8 The affordable model proposed the consultants shows that through the combination of reduced capital investment; lower borrowing and improved revenue performance it is possible to get the HRA on a sound footing. However, delivering the above assumptions would be extremely challenging in practice for the service given its low starting position.

### 7.0 Next Steps

7.1 An HRA Working Group has been established, chaired by the Strategic Director – Communities, and attended by the Section 151 Officer, Housing and Finance officers and Commissioners. A detailed action plan has been prepared focused on using the consultants' recommendations to develop our own scenarios. The aim is to bring the HRA Business Plan through an additional meeting of this Committee in November and the Executive and Council in December 2024.

7.2 The consultants are currently updating the model with the latest budget forecasts (including the legacy adjustments) and moving the base year to 2024/25 (currently 2023/24). On the request of the working group, the consultants will build in alternative scenarios to the affordable model, including:

- Further smoothing of the capital investment profile as a major works programme in excess of circa £16 million per annum is unlikely to be deliverable or feasible given the small staff team.
- Reduced assumptions around revenue savings. If the service is to improve, there needs to be investment in the capacity and capability of the staff team.
- Modelling an alternative Government rent policy of CPI + 1% continuing for a further 10 years beyond 2025/26. The current model assumes CPI + 1% in 2025/26, followed by CPI only for the remainder of the plan. There have been strong rumours that the Chancellor may apply CPI + 1% for a further 10 years with an announcement expected in the Autumn Spending Review in October. This would significantly help the viability of the HRA.

7.3 Officers are working through the assumptions to understand the implications on services to tenants; compliance with regulatory standards and the condition of the housing stock. It is looking promising that the HRA can be placed on a sustainable and viable path, but it is clear that there will be a continued need to prioritise the limited resources available.

### 8.0 Implications

#### Legal

8.1 The Local Government and Housing Act 1989 requires stock holding councils to operate a ringfenced Housing Revenue Account (HRA) which ensures income from tenants is used for their benefit. The Settlement Payments Determination 2012 (under the Localism Act 2011) introduced a requirement for stock holding local authorities to produce a 30-year HRA business plan. The Council does not currently have a plan, so this is critical area of work.

#### Resources (including finance)

8.2 The gross HRA budget for 2024/25 is £23.7 million. The HRA Business Plan will set out the Council's strategy for spending and borrowing to maintain its housing stock and operate services for its tenants and leaseholders. As with any other business plan, it must show that the council has clear proposals for achieving its objectives and that these are financially viable in the short, medium and long term.

#### Consultation, Equality Impact Assessments

8.3 An Impact Assessment will be produced on the Draft HRA Business Plan to accompany it through the decision-making process.

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- 8.4 The Council will also need to consult tenants on a Rent Policy to introduce the use of rent flexibility.

### Risks and Mitigation

- 8.5 The viability of the HRA is identified as a significant risk on both the Council's Strategic Risk Register and the Communities Directorate Risk Register. Failure to maintain a viable HRA would have a major impact on services to tenants and our housing stock and the Council would not be able to meet regulatory standards or set a legal budget. The development of the 30-year HRA Business Plan is a critical piece of work for addressing and managing this risk, by providing early warning of risks and opportunities based on what we know now. As set out above, it supports longer-term planning to avoid the HRA falling into deficit.
- 8.6 Going forward, the HRA model should be regularly updated as circumstances change, so the Council is better prepared to react and address new risks that emerge.

## 9.0 Supporting Documents

### Appendices

- 9.1 Appendix 1 includes the key initial modelling outputs.

### Background Documents

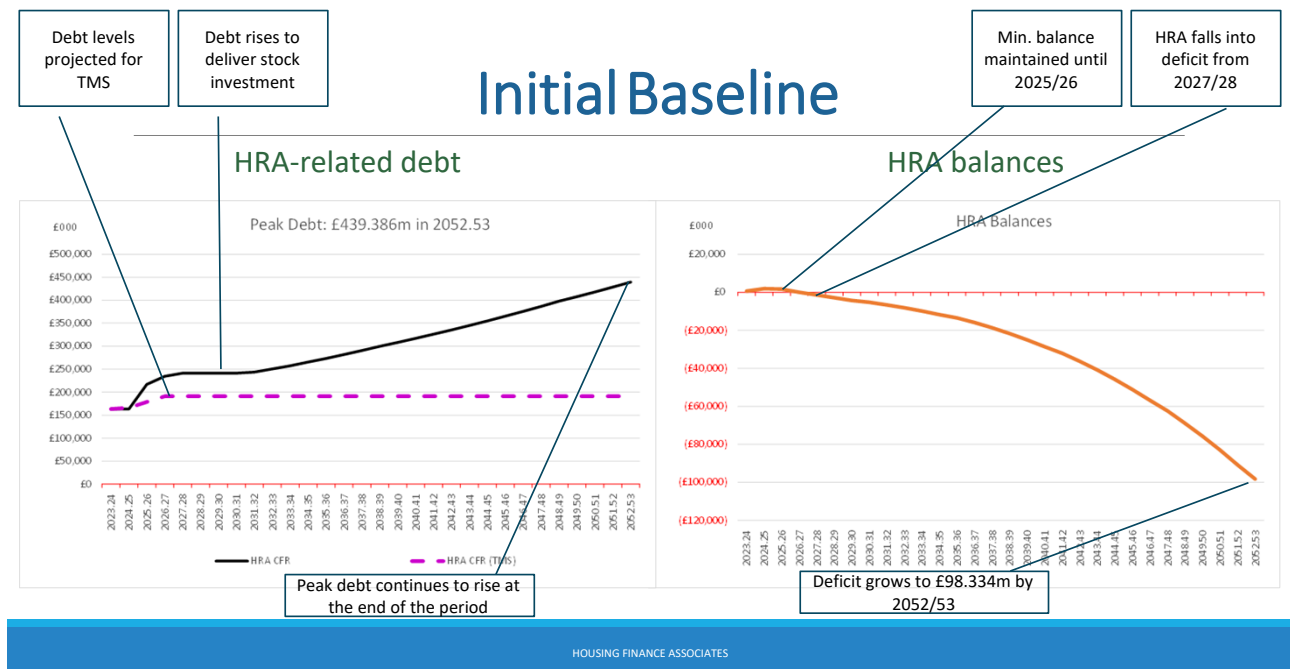
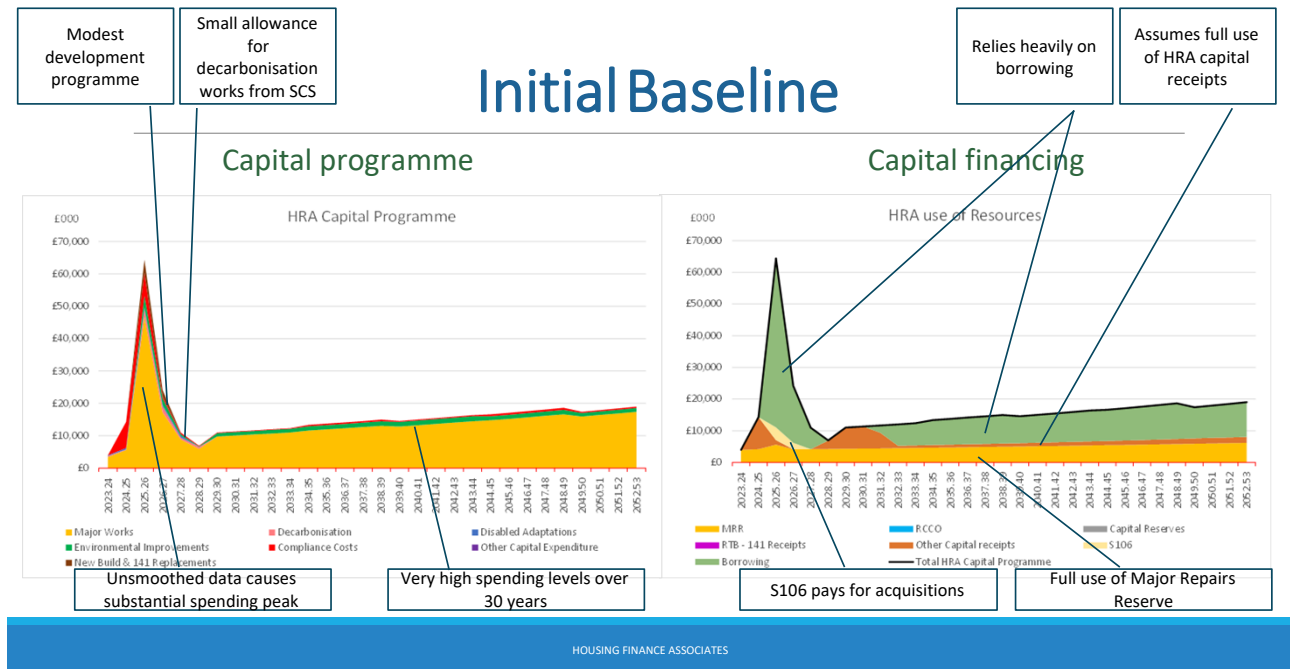
None

### Version Control

Version Number	Author	Changes
0.1	LS	First draft (18/09/24)
1.0	LS	Final

REPORT ENDS

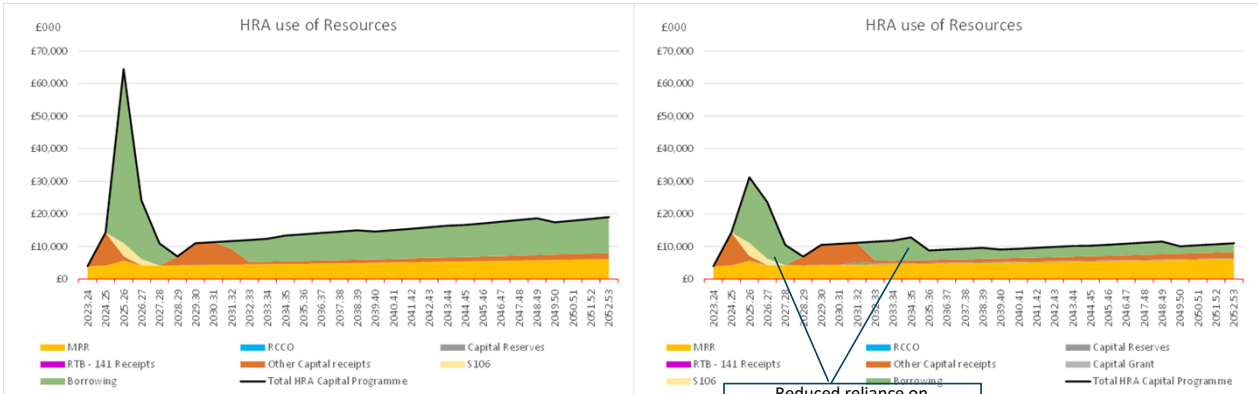
Appendix 1 – Initial Modelling Outputs



# Capital Financing Comparison

Initial Baseline

Affordable Scenario (A)



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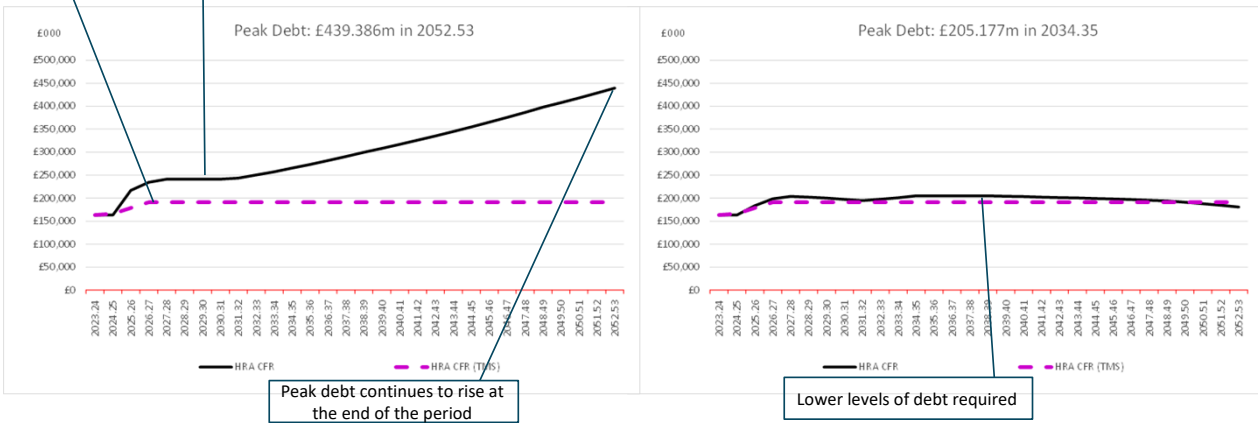
Debt levels projected for TMS

Debt rises to deliver stock investment

# HRA Debt Comparison

Initial Baseline

Affordable Scenario (A)



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