

## 30 YEAR HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN

**Meeting:** Executive

**Date Of Meeting:** 5 December 2024

**Report Author(s):** Louise Strongitharm

**Lead Officer:** Stephen Fitzgerald | stephen.fitzgerald@woking.gov.uk  
Louise Strongitharm | louise.strongitharm@woking.gov.uk

**Portfolio Holder:** Cllr Ian Johnson | cllrian.johnson@woking.gov.uk

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Will the decision be open for call in (i.e. is it a key decision)?  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 approve the Council's 30-year Housing Revenue Account (HRA) Business Plan and to agree to consult on a new Rent Policy.
- 1.2 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.

### 2.0 Recommendations

- 2.1 The Executive is requested to:

#### RECOMMEND TO COUNCIL THAT

- i. the 30-Year Housing Revenue Account (HRA) Business Plan at Appendix 1 to the report be approved; and
- ii. the Draft Rent Policy included as Appendix 2 to the report be agreed for consultation.

#### Reason for Decision

- 2.2 To ensure the Council has a viable long-term strategy for spending and borrowing to maintain its housing stock and operate services for its tenants and leaseholders.

## **30 Year Housing Revenue Account (HRA) Business Plan**

### **3.0 Proposal and Outcome**

- 3.1 The Executive is invited to agree the 30-year Housing Revenue Account (HRA) Business Plan and the Draft Rent Policy for consultation.
- 3.2 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.

### **4.0 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 Settlement Payments Determination 2012 introduced a requirement for stock holding local authorities to produce a 30-year HRA business plan.
- 4.3 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.”
- 4.4 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 model, but an alternative could have been to produce this in-house. This was discounted 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.

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5.2 The Business Plan has considered various assumptions and scenarios as part of the process. The draft plan seeks to balance financial and service delivery risks (including regulatory compliance).

### **6.0 Business Plan**

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.

6.2 Housing Finance Associates, a specialist consultancy providing financial modelling and associated support to housing authorities in England, were selected to develop the business plan model. 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 and a leading MS Excel-based, purpose-built, HRA financial model.

6.3 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.

6.4 The Council has recently commissioned a new 100% stock condition survey, but the data and analysis from this work will not be available until Spring 2025. This will need to be incorporated into future iterations of the business plan. Therefore, for the purposes of this first 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.

6.5 Over the summer, the consultants and officers have modelled and revised a baseline model and various alternative scenarios in order to reach a balanced and sustainable 30-year business plan. The baseline model assumed substantial and early investment in the capital backlog, resulting in unaffordable expenditure and debt. The initial

## 30 Year Housing Revenue Account (HRA) Business Plan

baseline is clearly unviable throughout the period with the HRA falling into deficit in 2037/38.

6.6 The Council has taken advice from the consultants to devise the draft model and plan, which is included in Appendix 1. The business plan assumes:

- The Council aims to rebuild a healthier minimum balance of £500/unit from 2025/26, compared to £100-150/unit applied for the last 10 years plus.
- Continued Government rent policy of CPI + 1% to 2030/31.
- Government allows some flexibility to set rents above the Government's formula if there is clear rationale for doing so. Historically, the Council has made little use of this "Rent Flexibility". The plan assumes greater use of rent flexibility, covered more in Section 7 below.
- Variable costs be introduced to the HRA budget model to reflect stock acquisitions and disposals.
- Revenue cost savings of circa £1m have been incorporated from 2025/26. Finance is currently concluding a review of the recharge allocations to the HRA to ensure that they are accurate, fair, and reasonable. This review may support achievement of this savings target. Work will continue to identify savings, including the conclusion of the recharge review.
- The capital programme has been smoothed and major works investment reduced by £3.4 million per annum from 2028/29. 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.

6.7 This business plan recognises the realities of the financial pressures faced by local housing authorities across the country, but particularly the local situation in Woking. The business plan reflects a legacy position of weak financial management, under-investment in housing stock and investment decisions that have adversely impacted the viability of the HRA. A prudent and pragmatic approach has been adopted to reflect an organisation that is prepared to live within its means, focus on its statutory responsibilities, balance its budgets and deliver best value for its residents. This is the first plan prepared for Woking and it is likely to require regular review and refresh as financial data and information improves across the Council.

6.8 The need to ensure that Woking Borough Council stays on a financially sustainable footing and delivers the stock investment required to meet government and regulatory standards has meant a significant increase to the capital programme. The proposed 5-year HRA capital programme budget allows for £71.9m between 2025/26 and 2030/31, compared to historic investment of circa £4m per annum. The increase is necessary to meet our obligations in respect of fire safety and Decent Homes. It will be essential that our capital resources prioritised in the short to medium term as follows:

- Health and Safety works (including fire safety)
- Works to the building fabric (under Decent Homes)
- Other component replacement (under Decent Homes)
- Energy efficiency and decarbonisation (dependent on Government regulations)

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6.9 Based on current information, the business plan demonstrates that the HRA appears to be viable, subject to some over-arching assumptions and prioritisation of resources.

### **7.0 Draft Rent Policy**

7.1 Rent assumptions are a critical element of the HRA Business Plan. In line with recent Government announcements, the business plan assumes that rents increase by CPI + 1% up to 2030/31 and by CPI only thereafter.

7.2 Government allows some flexibility to set rents up to 5% above formula rent for general needs properties and up to 10% for sheltered/supported housing (including extra care) if there is clear rationale for doing so, including taking into account local circumstances and affordability, and following tenant consultation. This is known as “Rent Flexibility”. Where there is intent to let a property using Rent Flexibility, this should be set out in the Rent Policy.

7.3 Historically, the Council has made little use of “Rent Flexibility”. However, this business plan highlights the significant financial challenge facing the Council in meeting its housing obligations, complying with regulatory standards and ensuring its homes are safe and well-maintained.

7.4 In light of this, the business plan assumes the Council will apply “rent flexibility” to all relets of its existing HRA homes when they become vacant. A Draft Rent Policy has been prepared (included as Appendix 2) and will be subject to consultation during late 2024/25.

### **8.0 Decision Type/Scope**

8.1 This is a key decision. The HRA Business Plan sets out a long-term plan to prioritise resources for housing services and stock.

### **9.0 Implications**

#### Legal

9.1 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)

9.2 The gross HRA budget for 2024/25 is £23.3 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.

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### Consultation, Equality Impact Assessments

- 9.3 There are no equality impacts arising from this report. The Council will also consult tenants on the Draft Rent Policy to introduce the use of rent flexibility.

### Risks and Mitigation

- 9.4 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.
- 9.5 Section 8 of the HRA Business Plan covers risk management, including identifying the key risks and mitigation. 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.

### Environment and Climate Change

- 9.6 The business plan includes capital expenditure of £2.4m in 2029/30 to prepare the Council for the potential requirement to achieve an EPC rating of C on all rented homes by 2030. In addition, general investment in new heating systems and insulation should improve energy efficiency.
- 9.7 No further allowance has been made for decarbonisation as further detail is awaited from Government.

## **10.0 Supporting Documents**

### Appendices

- 10.1 Appendix 1 is the Draft 30-Year HRA Business Plan.
- 10.2 Appendix 2 is the consultation draft Rent Policy.

### Background Documents

- 10.3 None.

**Report Ends**