



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**



**Finance, Economic Development and Corporate Services Overview and Scrutiny Committee**

28 July 2020

**Report of:** Councillor Adam Stokes

Cabinet Member for Finance and Resources

## HRA Financial Business Plan

This report provides a summary of the HRA 30-year financial business plan which is requirement of the HRA self-financing system introduced in April 2012.

### Report Author

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**Corporate Priority:**

**Administrative**

**Decision type:**

**Administrative**

**Wards:**

**All Wards**

**Reviewed by:**

Claire Morgan, Senior Accountant

17 July 2020

**Approved by:**

Richard Wyles, Interim Director of Finance

20 July 2020

**Signed off by:**

Councillor Adam Stokes, Cabinet Member for Finance and Resources

20 July 2020

### Recommendation to the decision maker

- To review the Housing Revenue Account Financial business plan.**

# 1 The Background to the Report

- 1.1 The formation of a Housing Revenue Account (HRA) 30-year Financial business plan has been a requirement since the replacement of the HRA subsidy system with the self-financing system in April 2012. Under the self-financing system the Council was required to make a one-off payment to the Government of £121.652m which was the Government debt associated with the council housing stock. The Council made this payment utilising borrowing from the Public Works Loan Board (PWLB). The loan structure consisted of a £96.652m Equal Instalments of Principal (EIP) Loan and a £25m maturity loan, Under the self-financing system Councils retain the rental income received from dwellings for reinvestment in housing assets and the delivery of local housing priorities.

# 2 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 The HRA Financial business plan supports the Housing Strategy and demonstrates how the income received from dwelling rents and other income sources is invested into delivering the approved outputs and outcomes of the Strategy. The Housing Strategy was last reviewed by Cabinet on 9 July 2019

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=164&MId=3763&Ver=4>

- 2.2 The business plan includes a 30-year financial summary which models the financial impact of the management and maintenance of the housing stock and the investment in new build properties to ensure that there is a financially robust long-term financial plan to support the delivery of the housing strategy.

- 2.3 The financial model is updated on an annual basis during the budget setting process with the estimated income and expenditure information and at the end of the year with the outturn data so that affordability of future plans can be assessed.

- 2.4 When the financial modelling is produced certain assumptions are included, these are assessed on an annual basis utilising historical information and assumed future changes to ensure that they remain realistic:

- The number of anticipated right to buy (RTB) applications, as this has an impact on the rental income and repairs expenditure, the current assumption is 50 per year;
- The number of new build properties which replace the lost income from RTB's, historically the programme has not been able to keep pace with properties lost through the RTB scheme.;
- The profiling of the major repairs programme, for example, when kitchen/bathrooms will be replaced;
- When new build schemes will be completed so that the rental income can be included and how the schemes will be financed;
- The expenditure expected to be incurred on the daily management and maintenance of the properties and the annual contribution to the major repairs reserve which funds future capital expenditure;
- Inflationary increase on rental income and repairs expenditure;
- Void rates and the associated impact on rental income streams.

- 2.5 The current HRA business plan and reserve balances are included at Appendix A, the key points to note are as follows:

## **Income**

- From 2023/24 the Council is expected to receive £2m from affordable rental income following the delivery of the HRA new build programme. The date for receipt of this income will be reviewed once the project timeline for the new build programme has been updated.
- The interest receivable figure reduces from £391k in 2019/20 to £119k in 2023/24 due to the reduction in reserve balances resulting from the financing of the new build programme.

## **Expenditure**

- The Council repays loan principal of £3.222m each year, this relates to a 30-year EIP loan which was taken at the time of the self-financing. The loan interest payable on this loan reduces annually by £98k as the principal outstanding on the loan is repaid.
- In 2019/20 a £25m loan, which funded the balance of the one-off payment to the government, matured. This loan had rate of 1.99%. This loan was replaced with a 15-year maturity loan which has an interest rate of 1.69%. This loan replacement has resulted in an annual saving of £70k in interest payable.
- Interest payable increases between 2021/22 and 2022/23 due to the external borrowing associated with the HRA new build programme.

## **Reserve Balances**

- Reserve balances reduce between 2019/20 and 2021/22 due to the financing of the new build programme.
- The HRA surplus/deficit is transferred to/from reserves at the end of each financial year, the forecast reserve balance at 2033/34 is £29.904m, this balance reduces to £7.188m following the maturity of the £25m loan.
- The 30-year plan shows a positive sustainable reserve balance which will enable the HRA to continue its investment in social housing.

## **Major Repairs Reserve**

- The balance on this reserve is invested in major improvements in the council housing stock, for example, replacement kitchens and bathrooms. The HRA incurs an annual depreciation and major repairs allowance charge, these amounts are transferred to the major repairs reserve to fund these capital works.

2.6 The Council is monitoring the impact of Covid-19 on the HRA and currently the highest risk area is the rental income and the tenants' ability to pay their weekly rent. Careful monitoring is in place and to date there is no adverse impact although this is kept under review. If this position changes during the year the business plan will be updated so that any longer-term impact that could affect investment plans are analysed.

## **3 Available Options Considered**

3.1 No other options were considered. The production and maintenance of a 30-year Business Plan is a requirement of the self-financing arrangements.

## **4 Preferred Option**

4.1 At the present time this is an information report and so alternative options are not explored at this time.

## **5 Reasons for the Recommendation (s)**

5.1 Not applicable.

## **6 Next Steps – Communication and Implementation of the Decision**

6.1 Feedback from Scrutiny Councillors will be passed to relevant officers.

## **7 Financial Implications**

7.1 The financial considerations are set out in the report and detailed at Appendix A.

**Financial Implications reviewed by: Richard Wyles, Interim Director of Finance**

## **8 Legal and Governance Implications**

8.1 Whilst this report is entitled 'Business Plan' it simply reports budgets and actuals, it does not measure performance. A performance dashboard is aligned to the Housing Strategy outcomes and this is separately reported to Cabinet. In terms of oversight and governance, members of this Committee may prefer to request that both this and the performance report are aligned into one report.

**Legal Implications reviewed by: Shahin Ismail, Director of Law and Governance**

## **9 Equality and Safeguarding Implications**

9.1 There are no issues relating to equality and diversity or safeguarding resulting from this information report, Equality and Safeguarding implications were assessed as part of the Housing Strategy report.

## **10 Risk and Mitigation**

10.1 The contents of this report do not expose the authority to any additional risks.

## **11 Community Safety Implications**

11.1 None.

## **12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?**

12.1 The report has no impact on carbon emissions.

## **13 Other Implications (where significant)**

13.1 None.

## **14 Background Papers**

14.1 None.

## **15 Appendices**

15.1 Appendix A – Housing Revenue Account 30-year business plan

<b>Report Timeline:</b>	Date of Publication on Forward Plan (if required)	Not applicable
	Final Decision date	To be confirmed