

HRA Business Planning

HIGHLIGHTS PRESENTED TO HOUSING AND HOMELESSNESS ADVISORY BOARD
TAMWORTH BOROUGH COUNCIL

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This summary

- A. The Baseline HRA projections
- B. Levers available to the Council to improve the position
- C. Effects of potential actions
- D. Key messages
- E. Next steps

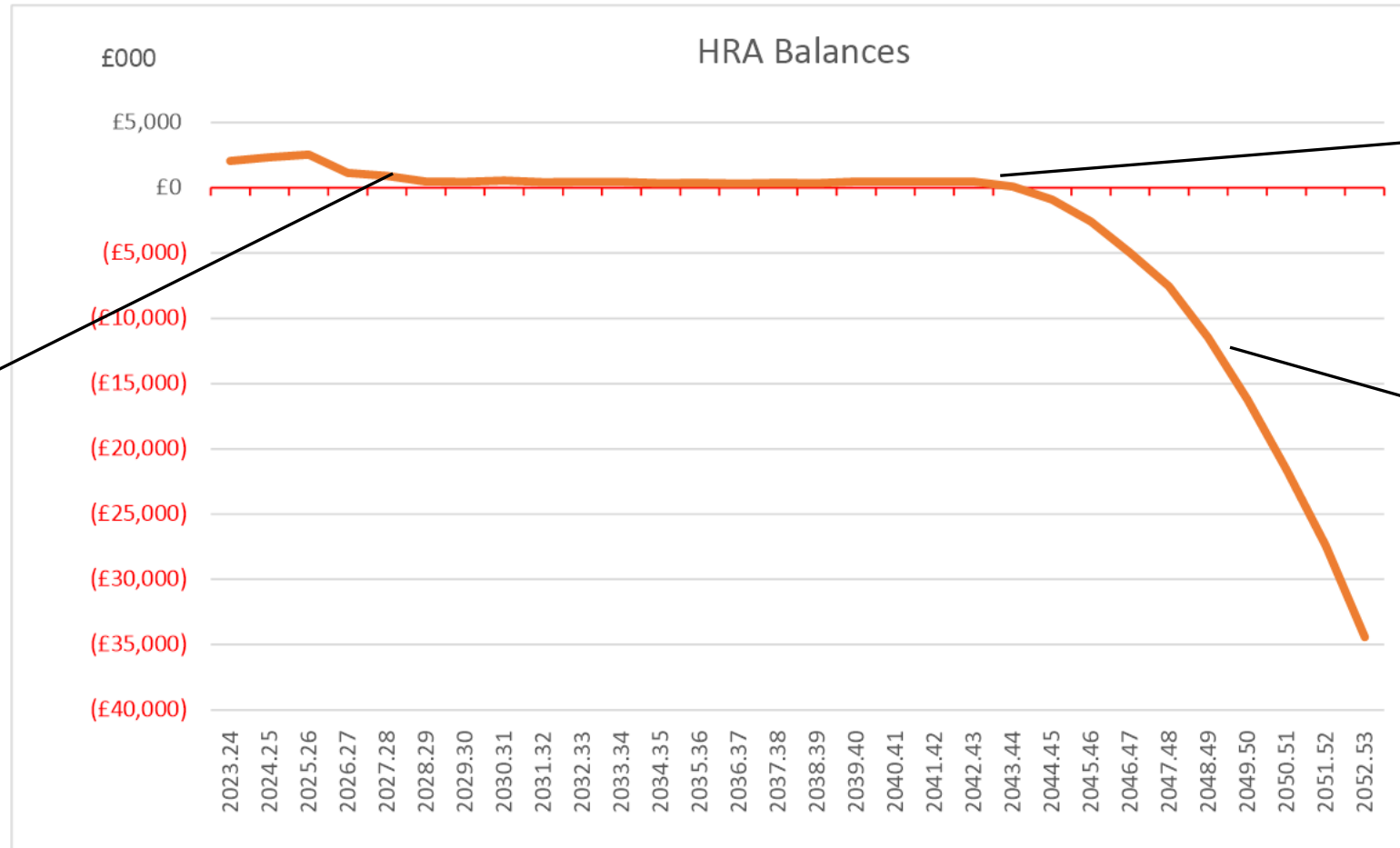
A - The HRA projections

- Long term projections (30 years)
 - Based on the best evidence
 - Operating income and expenditure
 - Capital expenditure (inc. decarbonisation & committed new build)
 - Capital financing, using multiple resource streams
 - Debt
 - Financial sustainability & compliance with constraints
- “What if” analysis
 - Sensitivity analysis & stress testing
 - Alternative scenarios
 - Assess the impact of new policies, initiatives and projects, plus emerging pressures
- Part of the risk management toolkit
 - Early warning system
 - Mitigation planning

A - Best evidence

- Working papers from the council (budgets)
- Evidence-backed data from the authority (rents; stock; stock condition)
- Forecasts from official sources (e.g. Bank of England)
- Assumptions reflecting established spending patterns
- Assumptions based on intelligence from elsewhere

A - Summary position – HRA balance

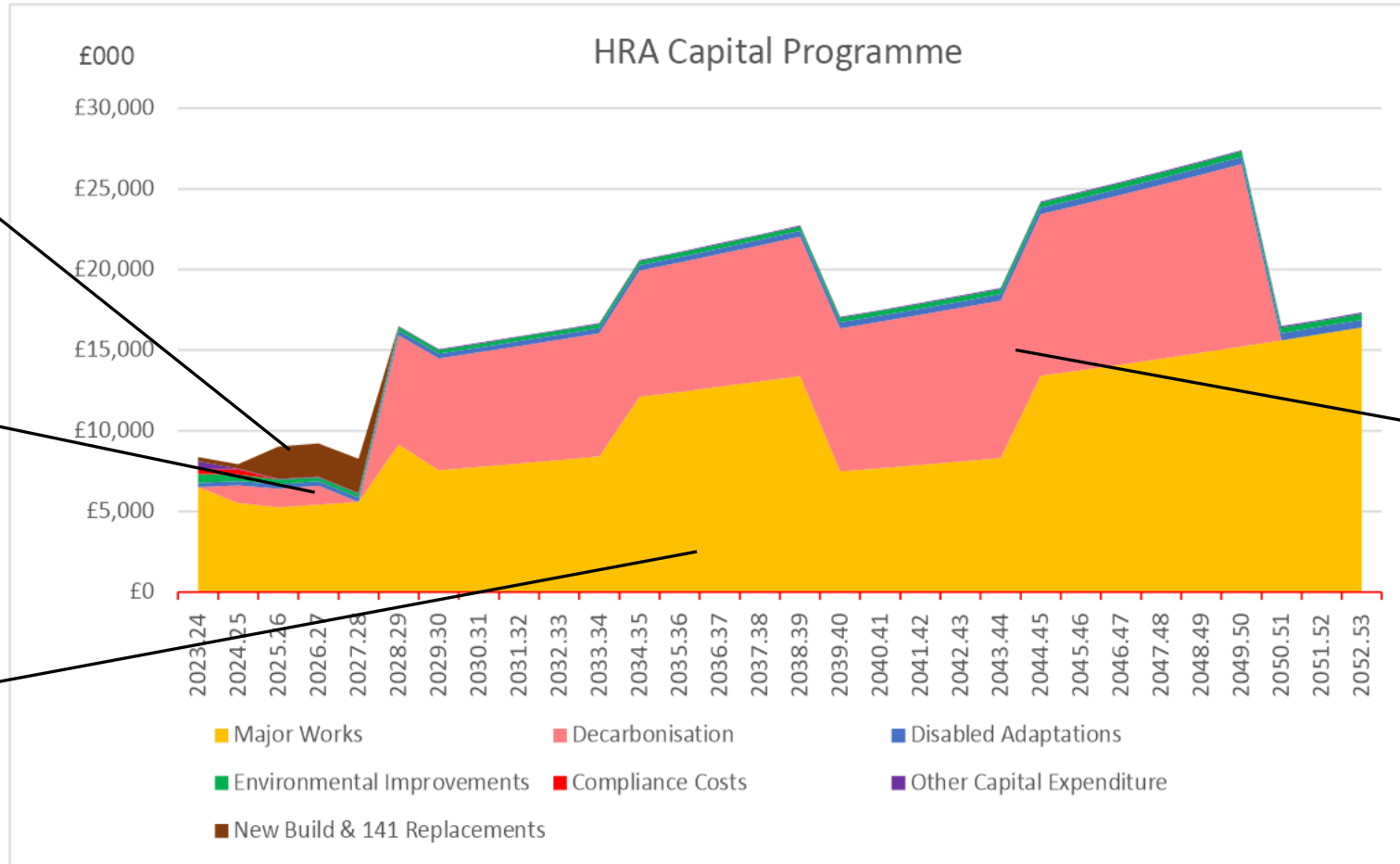


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HRA Balance used to finance capital programme & repay debt

Minimum HRA Balance Maintained until 2042/43

HRA falls into deficit late plan (potentially unlawful)

A - Summary position – HRA capital programme



New home delivery

Existing de-carbonisation provision

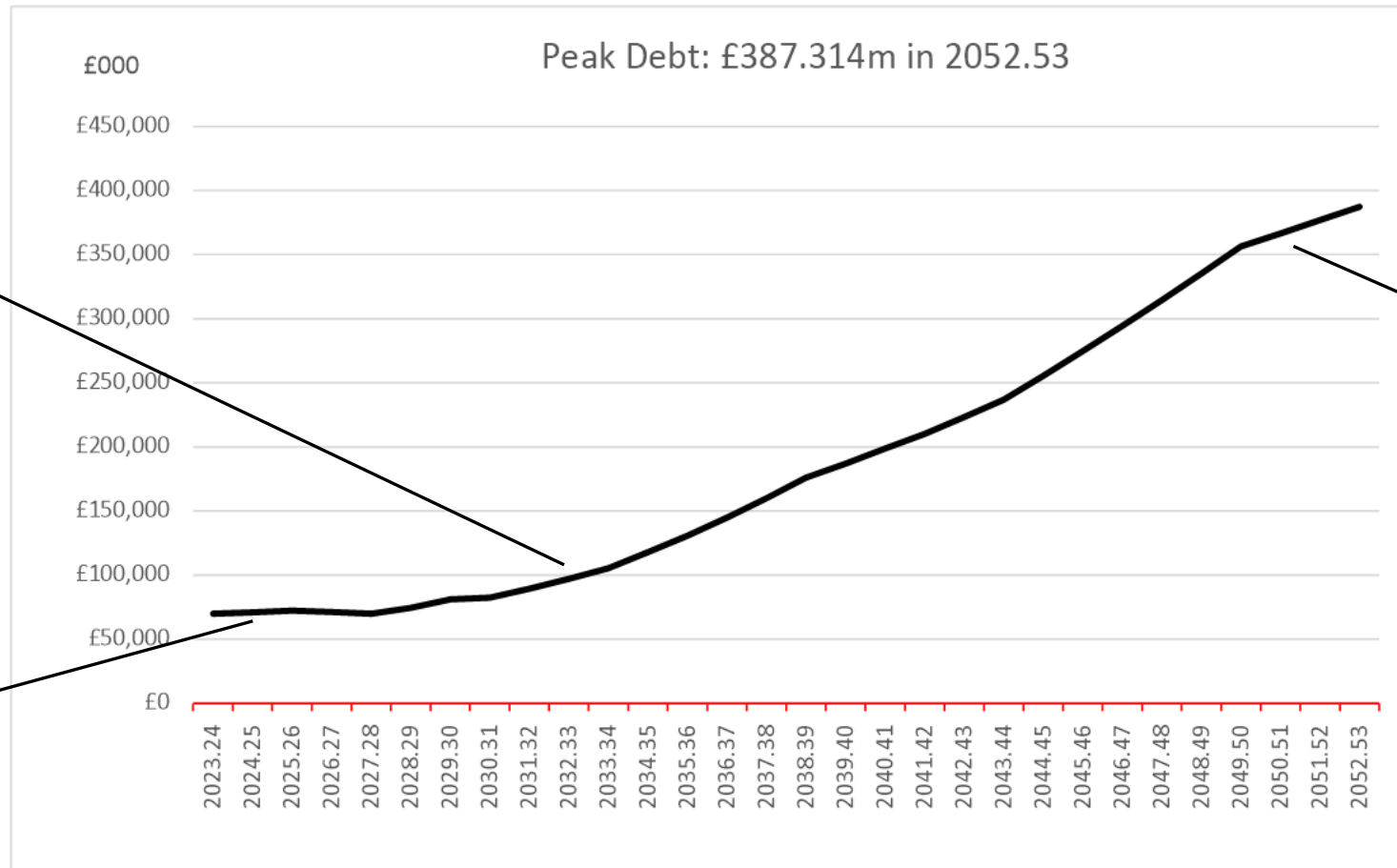
Ongoing cost of major works and replacing components

Substantial additional de-carbonisation works by 2050

A - Summary position – HRA debt

Unable to contain or repay debt from mid-plan

Use of HRA Balance helps manage debt over medium term



Debt continues to rise throughout projections

A - Summary position – Interest cover

Interest cover measures ability to pay interest charges on debt

Performance falls mid-plan as costs rise faster than rents

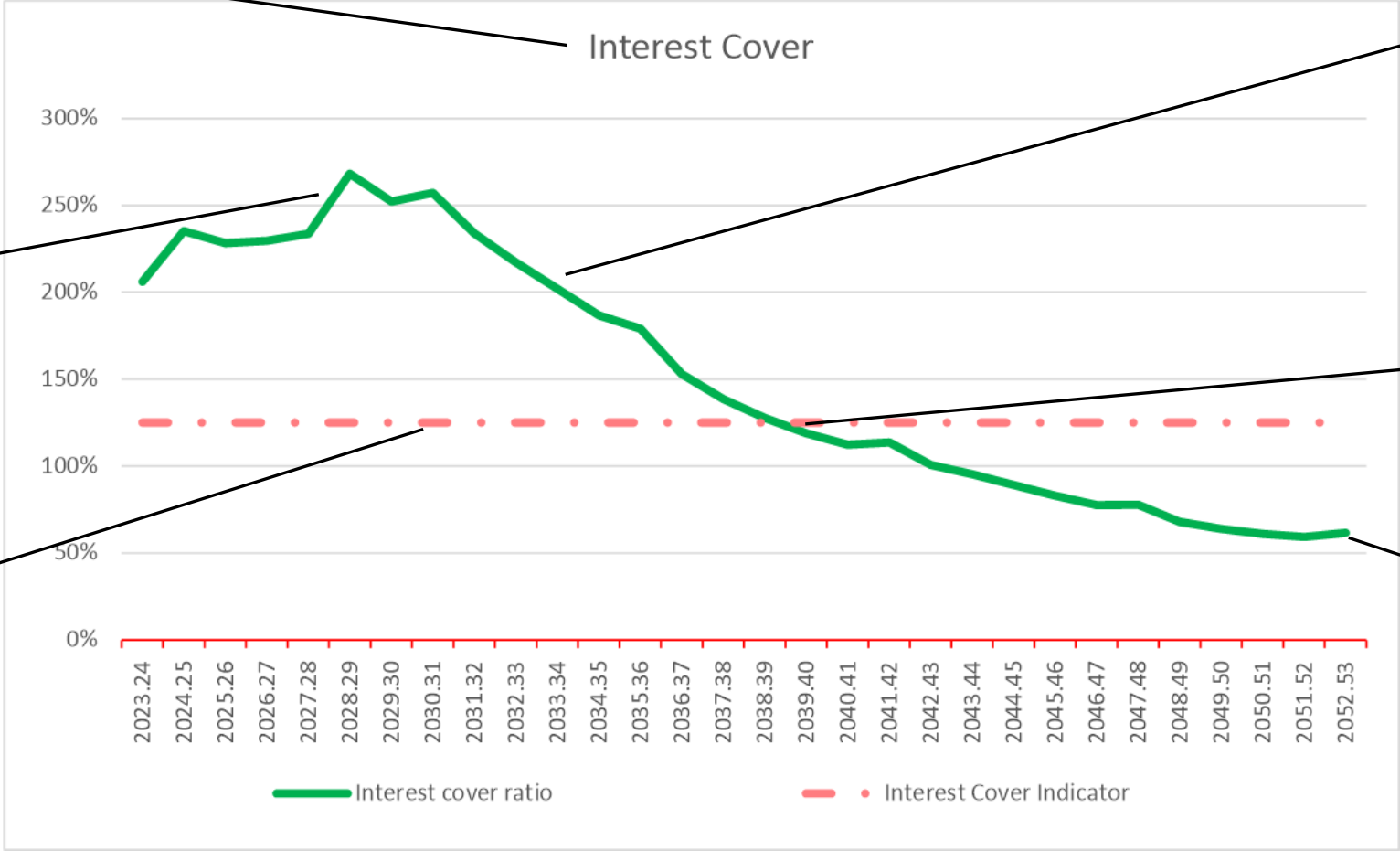
Position looks strong until mid-plan

Performance falls below minimum level from 2039/40

Debt at this level is affordable, with some "wriggle room"

Long term position deteriorates due to cost of continued borrowing

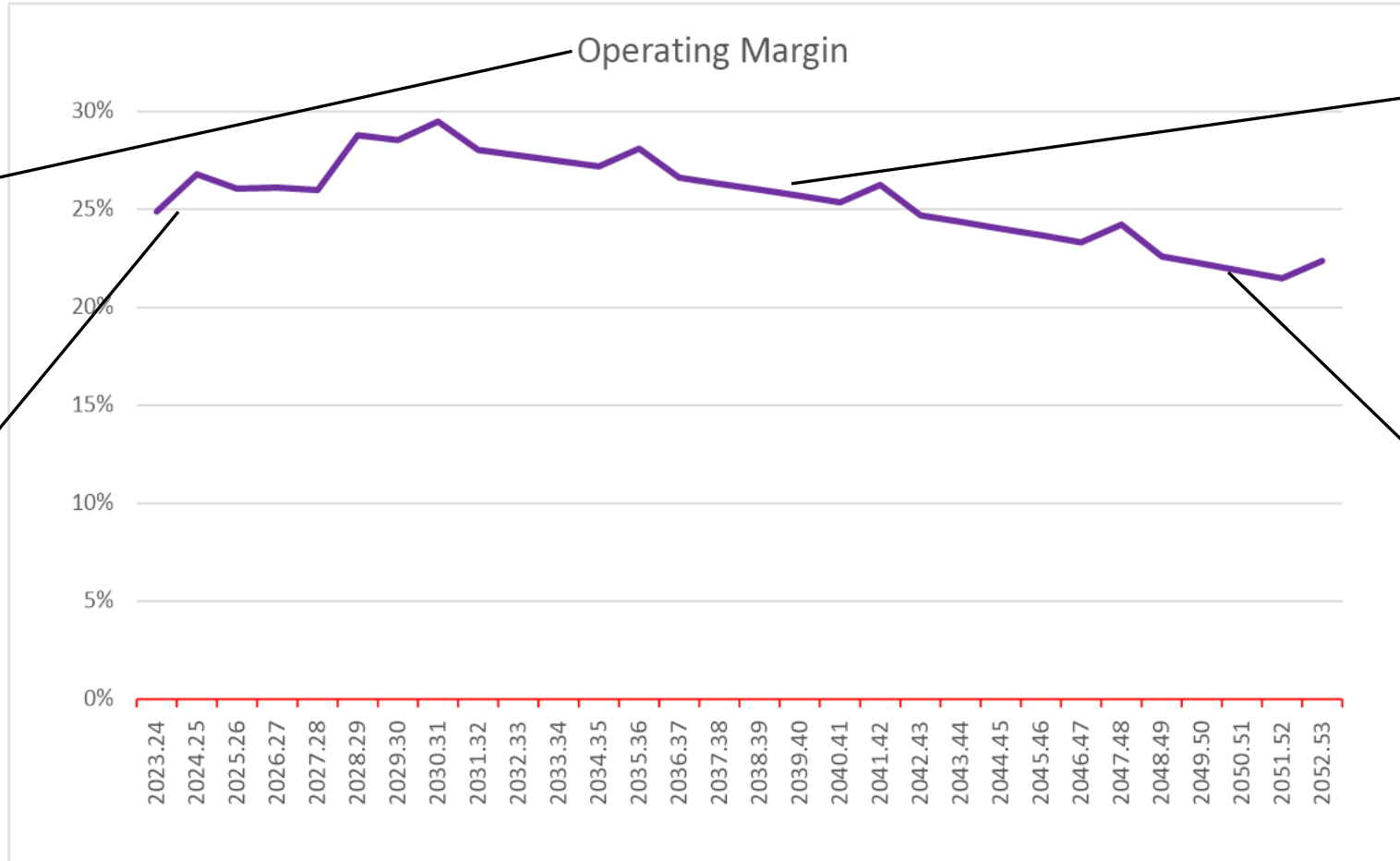
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A - Summary position – Operating margin

Operating margin shows ability of HRA to generate “spare” resource

Performance looks better than most councils



Performance falls mid-plan as costs rise faster than rents

Strong position may indicate less scope for cost savings

A - Challenges for Tamworth

Rents:

- Previous rent constraints imposed by Government
- Historically low house price values and low earnings – drives lower rental levels
- Decisions not to increase rents to maximum allowed
- Rent levels below local formula (on average £3.50pw)

Right to Buy:

- Retention of receipts for reinvesting (1-4-1) with match funding from HRA resources

Costs:

- Costs relatively low, but pressures still need to be constrained
- Facing the same issues as others; ageing stock with substantial investment required in changing environment.
- Additional decarbonization requirement

Effects:

- Lower capacity for investment, unless something changes
- May have limited scope to improve position by making efficiency gains

A - Summary Position, November 2023

What the graphs are telling us:

- Higher costs (from inflation and additional spending requirements) require the authority to borrow more to deliver stock investment and new homes for the HRA
- Constrained income (from rent capping) means the authority cannot repay debt as easily
- This causes the authority to hold higher levels of debt than previously expected, to the extent that affordability of the HRA starts to decline over the long term
- It will be important to minimise costs, maximise income and rigorously assess the financial impact of new projects, so that the authority can improve its ability to respond to other emerging risks and opportunities

B – Levers available

- Cost-related
 - Continue to prioritise the reduction of underlying costs to the HRA, where possible.
 - Medium-term programme for reviewing the current operating model to reduce costs, as part of a corporate sustainability programme.
 - Review procurement arrangements and renegotiate contracts to save costs to the HRA, where possible.
 - Ensure HRA share of corporate recharges is reasonable.
 - Extend the timeline for achieving decarbonisation.
- Income-related
 - Adjustments to rent policy, such as the use of rent flexibility.
 - Review scope for increasing service charges to achieve full recovery of service costs.
 - Use tenure mix to maximise rental yield on new developments.
- Finance-related
 - Ensure financially viable schemes that do not need long term subsidy from existing tenants
 - Dispose of assets on the open market to generate receipts to finance the HRA capital programme
 - Consider making the Council's non-RTB receipts available to finance the HRA capital programme
 - Secure additional external funding from public and private sources

C – Potential actions

- A. No new homes provided from 2024/25
- B. Council applies 5% rent flexibility to 50 re-lets pa from 2024/25
- C. Council implements a 7% rent increase in April 2024
- D. Council implements a 5% rent increase in April 2024
- E. Council implements a rent freeze in April 2024
- F. National rent increases at CPI +1% for 4 years from 2025/26
- G. Council implements a 2% pa efficiency programme for 5 years from 2025/26
- H. Decarbonisation receives 20% funding
- I. Scenarios B, G & H combined

C – Potential actions - Revenue

Scenario/ Sensitivity	HRA Balance			
	2023.24 £000	2032.33 £000	2042.43 £000	2052.53 £000
Baseline	£2,062	£451	£479	-£33,466
A. No new homes from 2024/25	£2,062	£450	£477	-£35,927
B. Apply rent flexibility from 2024/25	£2,062	£492	£547	-£4,926
C. 7% rent increase in 2024/25	£2,062	£448	£475	-£34,990
D. 5% rent increase in 2024/25	£2,062	£440	£63	-£39,587
E. Rent freeze in 2024/25	£2,062	£420	-£2,472	-£51,935
F. CPI +1% rent rises	£2,062	£476	£520	-£13,938
G. Five year efficiency prog from 2024/25	£2,062	£492	£548	-£4,715
H. Decarbonisation funding at 20%	£2,062	£485	£539	-£18,272
I. Extend decarbonisation to 2060	£2,062	£503	£572	-£12,892
J. Scenarios G, H & I Combined	£2,062	£1,759	£682	£506

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Generating more income improves the position

Reducing costs improves the position

Loss of income makes situation worse

Combined actions help the situation

C – Potential actions - Debt

Scenario/ Sensitivity	HRA CFR			
	2023.24 £000	2032.33 £000	2042.43 £000	2052.53 £000
Baseline	£69,981	£95,492	£220,902	£384,830
A. No new homes from 2024/25	£69,981	£92,234	£218,310	£381,753
B. Apply rent flexibility from 2024/25	£69,981	£84,997	£183,091	£334,857
C. 7% rent increase in 2024/25	£69,981	£96,648	£223,543	£387,470
D. 5% rent increase in 2024/25	£69,981	£99,942	£230,664	£394,592
E. Rent freeze in 2024/25	£69,981	£108,117	£246,745	£410,672
F. CPI +1% rent rises	£69,981	£88,437	£196,988	£356,829
G. Five year efficiency prog from 2024/25	£69,981	£83,447	£181,133	£332,601
H. Decarbonisation funding at 20%	£69,981	£86,898	£187,666	£335,180
I. Extend decarbonisation to 2060	£69,981	£83,340	£170,837	£332,106
J. Scenarios G, H & I Combined	£69,981	£68,479	£110,719	£212,869

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Generating more income improves the position

Reducing costs improves the position

Loss of income increases need to borrow

Combined actions help reduce debt

C – Potential actions – Interest cover

Scenario/ Sensitivity	Interest cover ratio			
	2023.24 %	2032.33 %	2042.43 %	2052.53 %
Baseline	206.20%	221.14%	101.94%	62.07%
A. No new homes from 2024/25	206.20%	223.41%	100.32%	60.64%
B. Apply rent flexibility from 2024/25	206.20%	296.25%	151.64%	90.73%
C. 7% rent increase in 2024/25	206.20%	216.06%	99.99%	61.35%
D. 5% rent increase in 2024/25	206.20%	202.18%	94.77%	59.41%
E. Rent freeze in 2024/25	206.20%	171.05%	83.58%	55.07%
F. CPI +1% rent rises	206.20%	267.22%	130.14%	77.43%
G. Five year efficiency prog from 2024/25	206.20%	300.89%	152.87%	91.07%
H. Decarbonisation funding at 20%	206.20%	240.50%	119.32%	71.26%
I. Extend decarbonisation to 2060	206.20%	249.23%	130.55%	72.83%
J. Scenarios G, H & I Combined	206.20%	352.76%	244.57%	144.15%

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Generating more income improves affordability

Reducing costs improves affordability

Loss of income reduces affordability

Combined actions produce acceptable outcome

D - Key messages

- HRA is not currently sustainable over the long term, on current assumptions.
- HRA is sensitive to changes in revenue income & expenditure levels.
- A continued focus on reducing costs and maximising income is required to help safeguard a financially sustainable position.
- Levels of cost efficiency are already good, so achieving further improvements will not be easy, but should be explored over the medium term as part of the corporate sustainability programme.

D - Key messages

- Improving the position would require:
 - Increasing income, to generate additional long-term resources for the HRA.
 - Reviewing the authority's operating model for housing, with a view to reducing overall costs over the medium term.
 - Ensuring the long-term impact of new projects and initiatives is beneficial to the HRA.
 - Reviewing the scope to reallocate corporate capital resources to help reduce HRA reliance on borrowing.
- There is a case to be made to Government for additional resources to help finance the costs of decarbonisation.

E – Next steps

- Treat the HRA as a long-term business.
- Focus on reducing costs (as part of the corporate sustainability programme) and maximising income.
- Continue to plug any gaps in stock-related data.
- Explore further options for safeguarding the financial health of the HRA.
- Set a medium-term plan for improving financial capacity of the HRA.
- Consider the long-term impact of decisions when setting the HRA budget and capital programme.
- Make the case to Government for resources to support decarbonisation.