Thursday, 6 March 2025

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Report of the Portfolio Holder for Housing, Homelessness and Planning

Housing Revenue Account Business Plan Update (2025-2055)

Exempt Information

N/A

1.0 Purpose

1.1 This report provides an update on the Housing Revenue Account Business Plan for 2023/24-2053/54 that was reported to Cabinet on 22 February 2024. It highlights the effects of subsequent changes in the data and underlying assumptions that underpin the Housing Revenue Account (HRA) Business Plan and provides an update on measures that officers are developing to take the authority forward.

2.0. Recommendations

It is recommended that Cabinet:

1. Approves the HRA Business Plan Baseline position for 2024-2054 detailed in the report and summarised in the attached presentation (Annex one)

2. Approves the HRA Delivery Plan setting out the corrective actions, noting service specific decisions on these will be referred back to Cabinet separately as indicated on the Forward plan (Annex Three)

3. Approves the potential impact of unfunded decarbonisation investment on the HRA, referring the Housing Asset Management Strategy to Infrastructure Safety & Growth Scrutiny to review ahead of a required Cabinet report on this in September 2025

4. Approves further modelling of Affordable housing supporting the Councils Corporate ambitions (set out point 3.26 & in the delivery plan at Annex three)

5. Endorses the outcome of consultations with tenants (Annex two) resulting in the priority areas used for scenario planning; namely rent flexibility, service charges and value for money assessment around corporate recharges

3.0 Executive Summary

3.1 The HRA Business Plan was last reviewed in full at Cabinet on 22 February 2024. This report provides the first update on emerging changes to the financial position of the HRA and forms part of the Council's review as part of its annual budget setting process.

3.2 This HRA Business Plan update for Tamworth Council refreshes the projections for a thirty-year period from 2024-2054. It incorporates changes to the underlying assumptions and proposals that officers are bringing forward to safeguard the long term position of the HRA. The update takes into account changing economic circumstances and emerging government policy.

3.3 The underlying financial position for the authority has improved since the HRA Business Plan was approved. Specifically, the government consulted on a medium-term social rent policy in October 2024, which gave a firm indication that social rents would be permitted to rise at CPI +1% for five further years, from 2026/27 to 2030/31. This enables the council to generate more rental income and is the key change that underpins improvement in the projected financial health of the HRA. We await the outcome of the government's consultation on future social rent policy.

3.4 The updated projections assume that rents paid by existing tenants will increase at the maximum rate indicated by the government in its consultation on social rent policy.

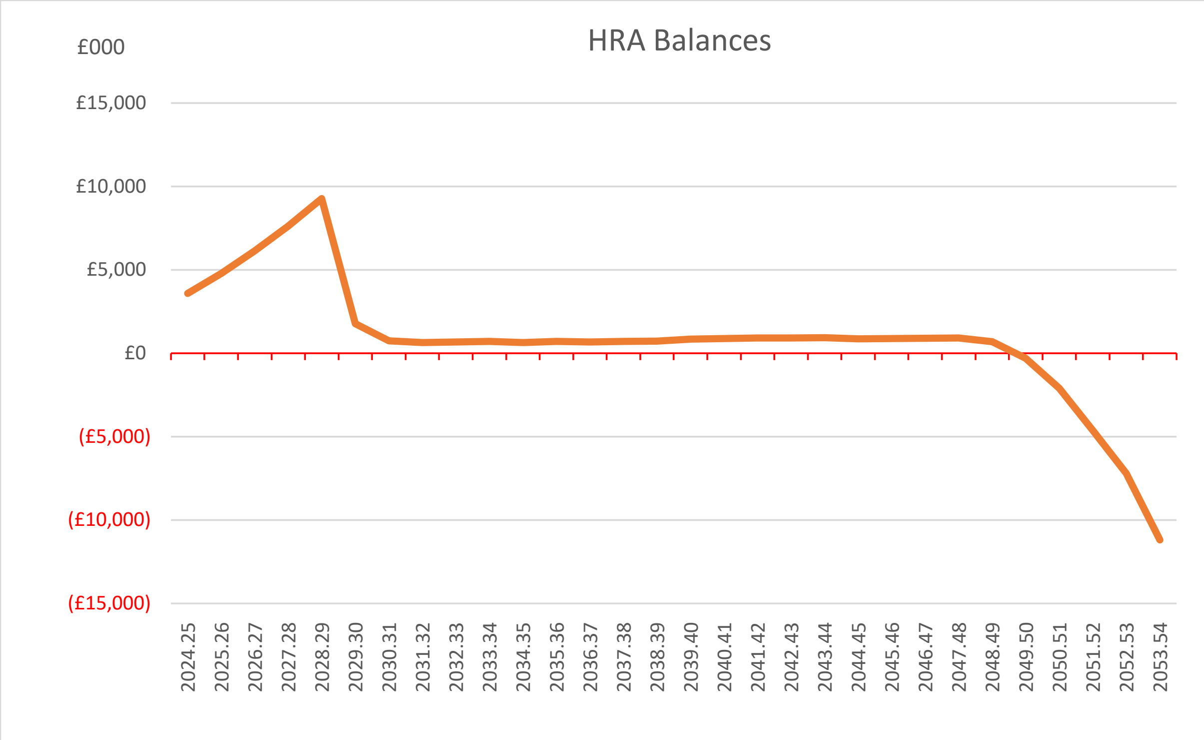
3.5 The authority will also continue to be under pressure to improve services and compliance under the Social Housing Regulation Act 2023, as well as any improvements set for the new homes standard and decarbonisation of the stock.

3.6 The government has also introduced lower discounts on right to buy applications received after 21 November 2024. This has resulted in a short term increase in applications, which we expect to generate additional capital receipts in 2024/25 and 2025/26.

3.7 The government also consulted on changes to the treatment of right to buy receipts in October 2024. We await the outcome of this consultation but anticipate that the overall level of receipts from the right to buy may reduce or have their use restricted to the provision of new homes.

3.8 Annex one to this report contains details of the presentation made at the Housing and Homelessness Advisory Board meeting on 13 February 2025 and incorporates the Boards feedback. Key messages from that presentation are outlined in the following paragraphs.

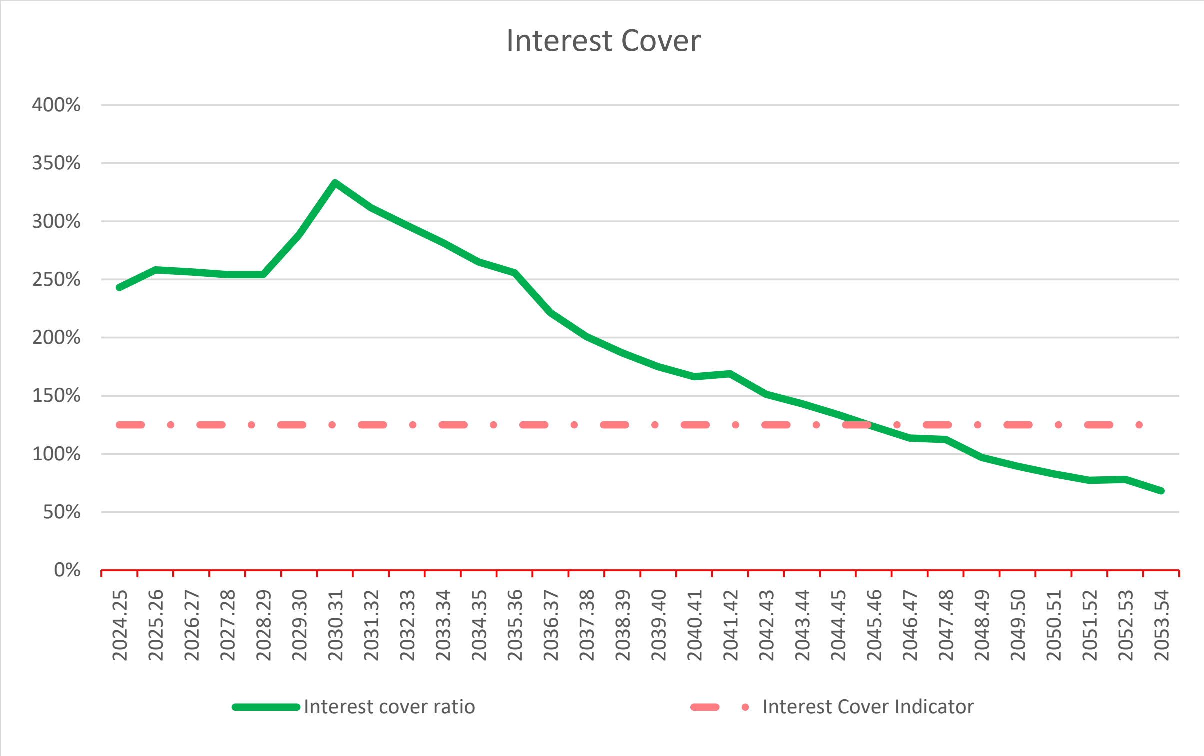
3.9 The chart below projects the level of HRA balances at the end of each year based on the updated HRA projections: In the chart the orange line projects the cumulative HRA balance at the end of each year.



3.10 Use of balances until 2028/29 reflects the authority's own medium-term budget. The HRA balance is then maintained at the minimum level, with any "spare" balances used to finance the capital programme or reduce debt. The authority maintains its minimum HRA balance until 2047/48. However, cost pressures throughout the period finally impact on the ability to maintain the minimum balance in 2048/49, and from 2049/50 onwards the HRA falls into deficit. By 2053/54 the HRA deficit grows to £11.196m. If left unaddressed, this would be a potentially unlawful situation.

3.11 These cost pressures are caused by increases in the level of borrowing the HRA needs to undertake while delivering the investment required in its stock. Projections show the HRA's need to borrow to finance the capital programme rising from £70.5m in 2024/25 to £349.6m by 2053/54. The interest charges on that debt also increase over the period, so more of the rent paid by tenants has to be used to service debt and less is available to pay for day to day operations. For clarity, £70.5m is the HRA Capital Financing Requirement (CFR - or underlying need to borrow to finance the capital programme) as at the end 2023/24, the actual HRA debt is £63m.

3.12 The underlying pressure on HRA balances can be seen at an earlier stage when the affordability of rising debt levels is considered. This is shown by the following chart, which measures Baseline interest cover over time:

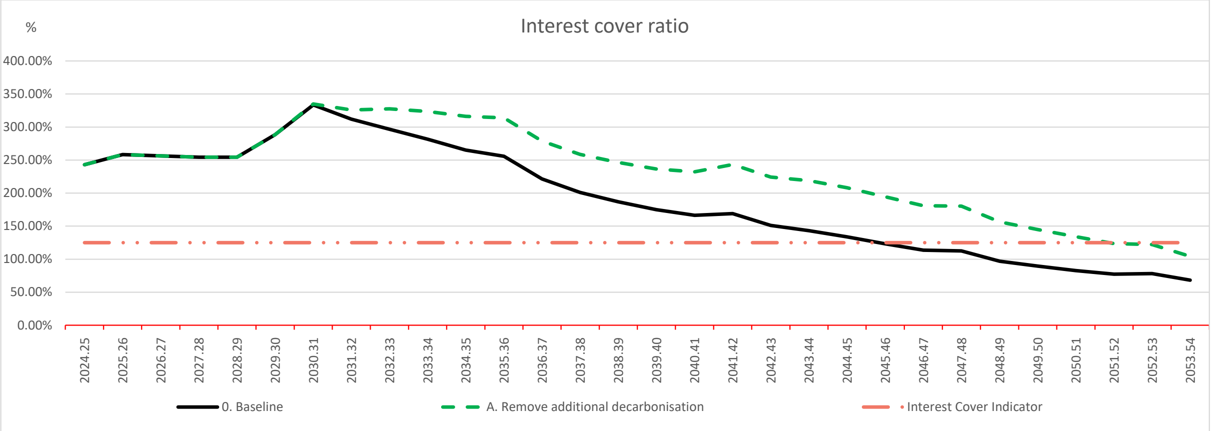


3.13 In this chart the green line represents the ability of the HRA to generate surpluses that pay for the interest on its loans and is a key measure of affordability. Performance rises over the medium term, largely as a result of rents increasing by more than inflation until 2030/31. Thereafter, rents rise at CPI only. However, costs (including interest charges) increase at a faster rate, causing affordability to drop.

3.14 The pink dashed line in this chart shows a minimum affordable level, at which interest cover is enough to pay for the cost of interest on debt, with a further 25% contingency. The council's performance crosses this line in 2045/46, four years before the HRA falls into deficit.

3.15 The Baseline position includes a combined allowance for investment in existing homes of just over £67,000 per dwelling over 30 years at current prices. While this is a representative overall amount, we have modelled a scenario that reduces the amount assumed additional decarbonisation works by £12,000 per dwelling, which lowers the overall investment allowance (for both decarbonisation and major works) to £55,000 over 30 years at current prices.

3.16 Pending the generation of specific information on the authority's existing stock, this enables us to assess the impact of unfunded decarbonisation costs on the financial capacity of the HRA, which is illustrated by the updated interest cover chart, below:



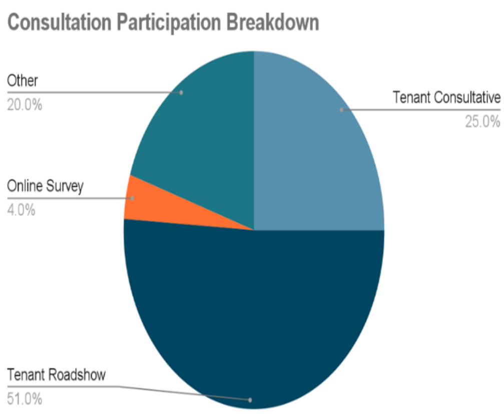
3.17 In this chart the black line represents Baseline interest cover performance, while the dashed green line shows performance if the authority is able to reduce the potential cost of decarbonisation by £12,000 per home. It shows that affordability improves for that scenario, staying above the minimum level until the final year of the projections. As a consequence it is important for the authority to manage its exposure to future decarbonisation costs. It can do this by using its asset management programme to ensure costs are minimised and by making the case for additional funding to help pay for the substantial potential costs of improving energy efficiency for its stock.

Consultation on HRA Business Planning priorities

3.18 As part of the Social Housing Regulatory Programme, the Council has established a HRA Business Planning & Viability Project which has been exploring multiple cost saving/income generating options in consultation with tenants and leaseholders. This consultation identified three key areas for further consideration when helping to strengthen the financial position of the HRA. Further information on these areas is provided in the Tenant Consultation Outcome report (Annex two) and may be summarised as:

- Reduce the level of corporate recharges to the HRA
- Introduce rent flexibility for new lettings, with corresponding adjustments to housing management support
- Improve the recovery of service costs, via service charges

The attached consultation summary (Annex two) shows 100 tenants and leaseholders responded prioritising the above areas for further feasibility work.



Priority Area	Ranking	Responses (n=100)	% Support
Service Charges Policy Changes	1	72	72%
Annual Efficiency Savings (2%)	2	65	65%
Affordable Rent for New Tenancies	3	58	58%
Process Efficiency Review	4	45	45%
Government Funding Lobbying	5	42	42%
Grant Application Focus	6	38	38%
Energy Efficiency Rent Adjustments	7	35	35%
Capital Program Rescheduling	8	30	30%
Non-essential Service Reduction	9	25	25%
New Initiative Assessment	10	20	20%

3.19 Officers plan to present the scope on specific proposals to deliver these to a future Cabinet so that decisions can be taken based on detailed feasibility, affordability, consultation and resulting impact assessments under the Councils Equality and Diversity Strategy.

In the meantime, we have modelled their potential impact and found them to be beneficial and are therefore included in the delivery plan. In doing so we have assumed that:

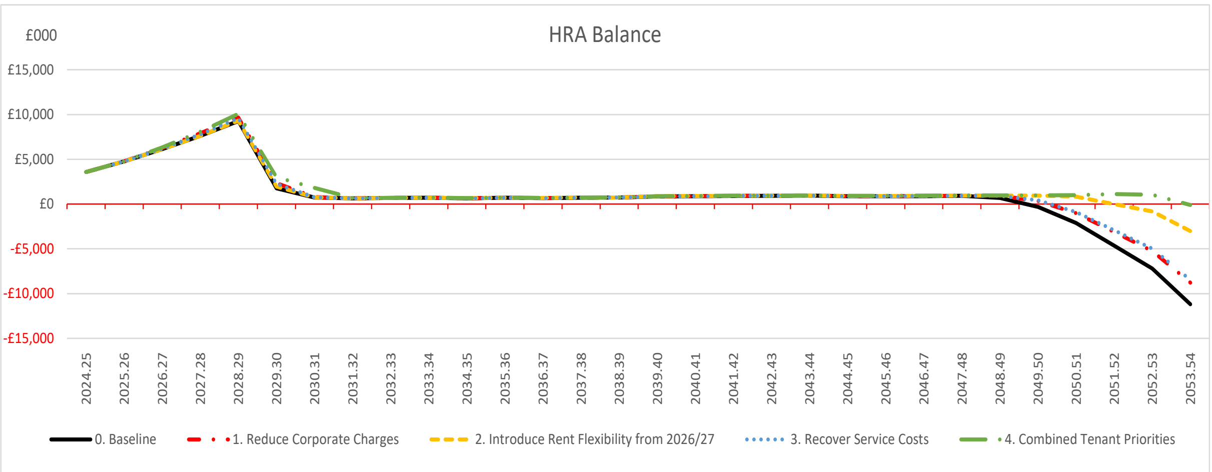
- A 10% reduction in the net cost of corporate charges to the HRA. This lowers HRA costs by £128,000 a year from 2026/27 onwards.
- All new social rent lettings would be at 5% above the formula rent from 2026/27. This would not affect the rent charged to existing tenants.
- The authority would increase service charges by £50,000 per annum for three years from 2026/27, which permanently increases overall service charge income by £150,000 pa by 2028/29.

3.20 It is important to note that any changes to the level of corporate charges paid by the HRA would have direct consequences for the General Fund, and so any such adjustments must form part of council-wide plans to review and manage corporate costs and improve corporate resilience.

3.21 Tamworth needs to develop specific proposals for its approach to using rent flexibility. These must comply with the requirements of the rent standard and the government policy statement on rents for social housing. Accordingly, the authority needs to confirm its rationale for utilising rent flexibility after consultation with tenants and ensure that its approach is affordable to tenants.

3.22 The authority also needs to conduct a detailed assessment of its existing service costs and levels of cost recovery, followed by consultation with tenants, before it commits to increasing service charges. That assessment should identify any services where costs are not being recovered, so that the extent of any hidden "subsidy" can be identified and corrected.

3.23 The chart below compares the impact of these three priorities on projected HRA balances, plus an option that combines all three actions, with the Baseline position.



3.24 In this chart the black line represents the Baseline position. Each of the individual tenant priority actions results in an improvement in the long term balance position and combining all three actions (green line) would enable the authority to delay its HRA from falling into deficit until the final year. While this improves the situation, the projections show that debt continues to rise to unaffordable levels, which eventually lead to a deficit.

3.25 In summary, while the HRA seems healthy for much of the planning period, the Baseline projections indicate the Housing Revenue Account becoming unaffordable from 2045/46 and falling into deficit from 2049/50. While these events occur late in the projections, it is clear that these are the long term consequences of a continuous decline in affordability that starts after 2030/31. It is important to address this position early, so that the authority is better placed to respond to other potential risks, pressures and opportunities that may emerge in future. In addition to the actions prioritised with tenants, other measures available to the authority include:

- Making efficiency savings, reducing service costs, or a combination of both
- Disposing of under-performing or high value properties
- Seeking additional funding

3.26 Consistent with the Councils ambitions for new and affordable housing modelling will form part of the strategic assessment around housing and asset management, linked to new build, acquisitions and garage/site re-development. Once the choices around decarbonisation and income is realised then this will determine the level of investment available.

3.27 Options and recommendations emerging from the HRA Business Planning & Viability Project will continue to be reported, as they are developed.

3.27 <u>Next Steps & Delivery Planning to balance the Housing Revenue Account</u>

The proposed Housing revenue Account is shown in full at annex three and sets out the key areas of further exploration. These will be built into the Councils corporate planning framework and form part of the monitoring as a result.

Corporate Priority	Outcome	Output	Timeline	Lead	Linked Plans	BRAG rating
Place & Prosperity	Develop new and Affordable Housing	1. Review housing strategic options for new and affordable housing including acquisition, new build and garage /HRA site re-development. Modelling financial opportunities with HE grant/RTB receipts and/or other funding sources through income derived from strategic choices on service charging, rent flexibility and wider VFM	All milestones' captured within the corporate planning framework	Assistant Director Partnerships, Assets and Regeneration & growth	Local Plan Housing Strategy Affordable Housing Strategic Plan	
Environment	Rental Income Maximisation to invest in Housing services within Housing Revenue Account	1. Feasibility on Rent Flexibility (New Tenants for General needs (5%) and Supported (10%) 2. Scoping Phase 2 of Service charging including affordability, consultation and Equality Social Inclusion and Health impacts		Assistant Director Neighbourhoods	Income Management Policy and Strategy	
	Demonstrable Value for Money & efficiency outcomes for tenants & leaseholders	3. Review Corporate Recharges included in the Financial Resilience plan – seeking to reduce by up to 10% (£128kpa or 2% per annum over 5 years)		Executive Director Resources	Corporate Resilience Plan	
Community Wellbeing	Making Best Use of Council Stock	4. Produce Asset Management Strategy 2025 aligned to HRA Business Plan		Assistant Director Assets	Asset Management Strategy	
	Achieving Net-zero plans & decarbonisation	5. Identify De-carbonisation requirements from the stock condition survey and align to the Asset management strategy aligned to funding sources, timescales and wider ambitions		Assistant Director Assets	Climate Change & Sustainability Plan	
Council	Deliver excellent and tenant centric services	6. Review Service operating models across housing including all discretionary services to support a viable housing revenue account in the longer term and that allows for excellent services		Assistant Director Neighbourhoods	Tenant Inclusivity Strategy	

4.0 Resource Implications

4.1 The HRA Business plan is reported to Cabinet at the same time as the Councils Medium term Financial Strategy to ensure it is aligned and consistent with the Council's budget setting arrangements.

4.2 Analysis of the allocation of resources and its implications revolves around the baseline projections for a local authority's Housing Revenue Account (HRA). The key implications of the resource allocation and baseline projections are as follows:

1. Debt Reliance and Financial Performance: The baseline assumptions indicate a heavy reliance on debt to deliver the long-term capital program, leading to a substantial rise in debt and resulting in the HRA falling into deficit and interest cover performance becoming unacceptable by the end of the projections.
2. Operating Surplus and Affordability: The analysis shows that the authority's operating margin is performing well, with net surplus higher than the median housing association performance for 2023. This suggests limited scope to address weaknesses in affordability simply by reducing revenue budgets.
3. Options for Addressing Weak Affordability: The analysis outlines a range of measures that may be available to address the weak long-term affordability resulting from the current projections, including reducing operating costs, increasing income, securing additional funding, rescheduling, or scaling back existing plans, and generating additional receipts from selling assets.
4. Risks and Mitigation: The projections highlight risks such as rising debt levels, unaffordable capital financing charges, and insufficient "wriggle room" to respond to emerging risks and pressures after the medium term. It emphasises the need for the authority to take action to minimise its exposure to these risks.

4.3 Proposals developed to safeguard the financial position of the HRA will be linked to the overall approach for the Council and guided by newly emerging

Government requirements for Local Authorities to produce Performance Plans relating to a number of defined criteria.

5.0 Legal/Risk Implications Background

5.1 There is a significant risk around the longer-term horizon scanning impacting the HRA business plan. The following table details the material risks, which can be developed as part of the HRA business planning viability project.

Risk	Mitigation
Rising debt levels result in more expensive capital financing charges, which become unaffordable over the long term	• Reduce operating costs • Increase income • Secure additional funding • Reschedule or scale back existing investment and service enhancement plans • Generate additional receipts from selling assets on the open market
Debt that does not peak over the medium term increases the authority's exposure to interest rate risks	• Review and consult with Tenants and leaseholders on the opportunities to reduce expenditure or increase income
Failure to maximise rental income or continue to bear down on the costs that are charged to the HRA would impact negatively on its financial health	• Align and maximise tenants and leaseholders income to in turn maximise income to the Council

6.0 Equalities Implications

6.1 Individual proposals emerging from the HRA Business plan require a community and equality impact assessment before adoption. The Equality Social Impact Assessment annexed has been completed. (Annex four)

6.2 Initial consultation on the emerging proposals has prioritised the areas tenants/leaseholders want to focus different service design options.

6.3 The long-term financial projections and potential actions for safeguarding the local authority's HRA plan raise several ethical considerations, primarily related to the financial sustainability of the HRA and the potential impact on tenants. Proposals that reduce operating costs should be approached carefully to avoid compromising the quality of housing and services provided to tenants. Similarly, any increase in income, such as through sustainable rent flexibility charges, should be assessed for its potential impact on tenants, particularly those with limited financial resources.

7.0 Environment and Sustainability Implications (including climate change)

7.1 The HRA Business plan seeks to align with environmental sustainability goals, including efforts to mitigate climate change. Initiatives such as decarbonisation works and energy efficiency improvements.

7.2 Analysis of the long-term baseline projections for a local authority's HRA plan and the potential actions available to address the weak long-term affordability has several implications for the environment and sustainability, including climate change.

1. Environmental Implications

7.3 The baseline projections indicate a substantial level of additional investment in decarbonisation works, which adds to the investment requirement over 30 years. This reflects the authority's commitment to decarbonising and improving the energy efficiency of existing homes, as evidenced by the significant cost of decarbonising the housing stock over the planning period.

2. Government and Stakeholder Engagement

7.4 In this regard, the HRA Business plan suggests making a case to the government and other stakeholders for additional funding to help pay for decarbonisation works. This raises ethical questions about the allocation of public funds and the responsibility of different stakeholders in ensuring the availability of affordable and sustainable housing.

3. Climate Change Implications

7.5 High levels of inflation have particularly impacted building costs, which have risen by more than the high rates of general inflation. Additionally, previous government-imposed caps on rent increases for existing tenants has placed additional pressure on HRA balances. These factors, along with expectations for interest rate changes, have significant implications for the financial health of the HRA and its ability to fund decarbonisation works and other sustainability initiatives.

7.6 Over the longer term, implementation of the authority’s plans will seek to balance investment levels. In doing so the council needs to take into account the importance of addressing climate change and its financial implications for the authority.

Background Information

N/A

Report Author

Tina Mustafa – Assistant Director Neighbourhoods

List of Background Papers

N/A

Annexes

Annex one – HRA Business Plan Baseline position for 2024-2054
Annex two – Outcome of consultations with tenants
Annex three – HRA Delivery Plan
Annex Four – Equality Social Impact Assessment