Sandwell Council
Housing Revenue Account Business Plan

Safer Neighbourhoods and Active Communities Scrutiny Board

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Housing Revenue Account Business Plan (1)

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- The HRA Business Plan sets out our strategic plan for managing and maintaining the Borough's council and social housing stock. It sets out in detail the Council's short to medium term plans and priorities for its housing and asset management services (9 years) and provides a provisional estimate for long term (30 year) forecast on stock investment and financial planning.
- It builds upon our previous financial planning and takes account of significant challenges including: reductions to rents charged (where rents should have continued to increase marginally above inflation), the Covid pandemic, Brexit and the war in Ukraine, all of which have caused pressures on expenditure. We have at the same time seen more opportunities arising through the abolition of the debt cap, which previously restricted us from any further borrowing.
- We own over 28,200 properties for rent (950 of which are within the PFI scheme at Harvills Hawthorn, managed externally) and the freehold on over 1,252 leasehold flats across the borough in addition to over 2,700 garages and other buildings. These properties are managed through our own Housing Services.
- Since the introduction in 2012 of Housing Revenue Account Self-Financing (which resulted in a loan settlement for us of £504million, taking on additional debt of over £25million) the council has had a greater degree of control over the use and management of the HRA. Self-financing allowed decision making at a local level to drive planning for investment in housing stock and set spending priorities in line with local demand.
- We continue to consider:
  - Analysing our stock and the services we provide so that we can base our future plans on a robust and sustainable basis. To this end 14,000 stock conditions surveys are being procured.
  - Working up a range of plans for potential future investment in new homes which better match the needs of our communities.
  - Thinking through how the new future for council housing can help the borough as a whole to deliver our overall objectives.

Housing Revenue Account Business Plan (2)

This Business Plan identifies how services are delivered as well as:

- What it costs and how we think the finances will develop in the future.
- Showing that our plans are laid on firm foundations, are sustainable and viable.
- What additional resources we might have for investment and how we can leverage in external funding, where opportunities arise.
- What our priorities are for investment.
- A summary assessment of the key risks in the delivery of the business plan with actions to mitigate these risks
- What new build can be delivered

- In the context of the Council's vision:
  - The best start in life for children and young people
  - People live well and age well
  - Strong, resilient communities
  - Quality homes in thriving neighbourhoods
  - A strong and inclusive economy
  - A connected and accessible Sandwell.

Housing Revenue Account Business Plan – Risks for Sandwell

- Government Rent Policy
  - Intervention and the future
- Climate Change & Energy Efficiency
  - EPC C (50%+ currently)
  - Zero-Carbon Aspirations
- Right to Buy
- Welfare Reform
- Demand for Housing
- Fire & Building Safety
- Changing Regulatory Landscape
  - TSM measures

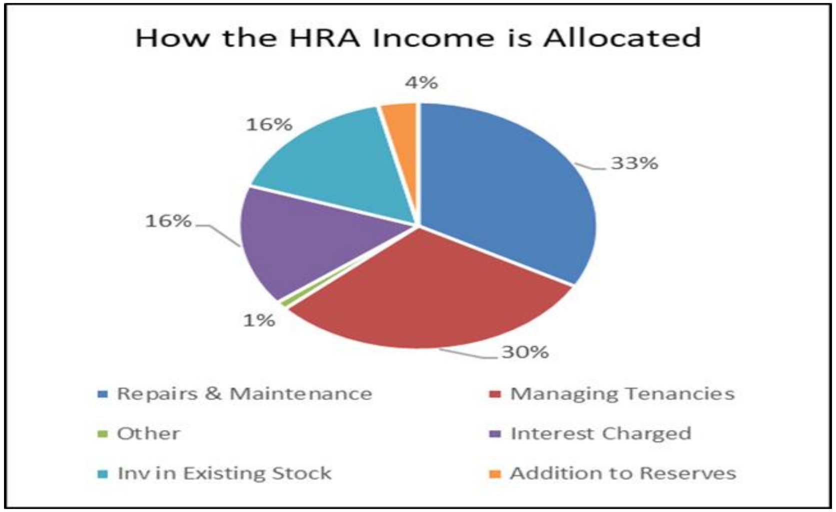
The Tenant Satisfaction Measures (Commence April 2023)

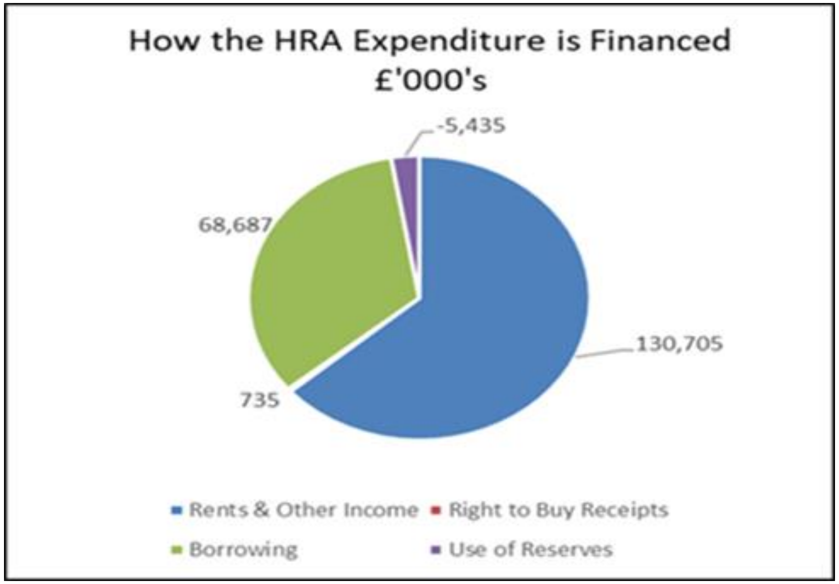
Measured by Landlords Directly		Combined	TP – Measured by doing Tenant Surveys	
Homes that do not meet the decent homes standard	Repairs Completed in timescales	Keeping Properties in good repair	Overall Satisfaction	Satisfaction with repairs
Gas Safety Checks	Fire Safety Checks	Maintaining Building Safety	Satisfaction with time taken to complete most repairs	Satisfaction that the home is well maintained
Asbestos Safety Checks	Water Safety Checks	Respectful and Helpful Engagement	Satisfaction that the landlord listens to tenants view and acts upon them	Satisfaction that the landlord keeps tenants informed about things that matter to them
Lift Safety Checks	Complaints relative to the size of the landlord	Effective handling of complaints	Agreement that the landlord treats tenants fairly and with respect	Satisfaction with the landlords approach to handling complaints
Complaints responded to within Complaint Handling Code timescales	Anti-social behaviour cases relative to the size of the landlord	Responsible neighbourhood management	Satisfaction that the landlord keeps communal areas clean and well maintained	Satisfaction that the landlord makes a positive contribution to neighbourhoods
			Satisfaction with the landlord’s approach to handling anti-social behaviour	

- Additional: Electrical safety checks / percentage of communal areas meeting the required standard (white paper)

The HRA Budget 2022.23

	Model 2022.23
Dwelling rents	121,895,195
Non-dwelling rents	200,000
Service charge income	2,813,500
Other income and contributions	5,713,000
Total income	**130,621,695**
Repairs & maintenance	43,301,517
Management (incl RRT)	40,050,483
Bad debts	799,288
Depreciation	16,875,500
Debt management	18,000
Total costs	**101,044,788**
Net income from services	**29,576,907**
Interest payable	-20,349,311
Interest income	82,570
Net income/expenditure before appropriations	**9,310,166**
Set aside for debt repayment	0
Revenue contributions to capital	-8,750,000
Allocation to/from other reserves	0
Other appropriations	0
Net HRA Surplus/(-)Deficit	**560,166**
HRA Balance brought forward	**41,285,000**
HRA surplus/(-)deficit	560,166
HRA Balance carried forward	**41,845,166**





Benchmarking

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Benchmarking	Ave Rent	NDR/Unit	S.Chg/Unit	Oth.Inc/Unit	Repairs/Unit	Man/Unit	Bad Debts	Depr/Unit	Int Rate	Reserves/ Unit	Turnover/ Unit	Op Costs/Unit	Surplus/Unit	Op Margin	Debt/Unit
Business Plan 2022.23	£85.16	£7	£100	£204	£1,546	£1,430	0.66%	£602	4.18%	£1,494	£4,663	£3,607	£1,056	22.6%	£18,648
Out-turn 2020.21	**£80.60**	**£11**	**£96**	**£0**	**£1,424**	**£906**	**0.78%**	**£563**	**4.04%**	£1,178	**£4,269**	**£2,924**	**£1,345**	**31.5%**	**£15,607**
Peer Group 2020.21	£76.52	£52	£215	£0	£1,106	£1,248	0.89%	£822	4.28%	£1,526	£4,278	£3,213	£1,065	24.9%	£13,901
Regional 2020.21	£80.16	£78	£205	£0	£1,190	£1,080	1.00%	£896	3.92%	£1,265	£4,433	£3,215	£1,218	27.5%	£16,837
National 2020.21	£87.60	£88	£413	£87	£1,120	£1,764	0.92%	£1,056	3.51%	£2,498	£5,084	£3,981	£1,104	21.7%	£17,888

- The above figures are based on a per unit basis in order to allow for a fairer comparison as possible
- Data is derived from the annual accounts for each of the 162 local authorities with stock (exception of 14 Councils)
- The peer group is based on 17 similar sized stock holding within the Midlands and Northern areas

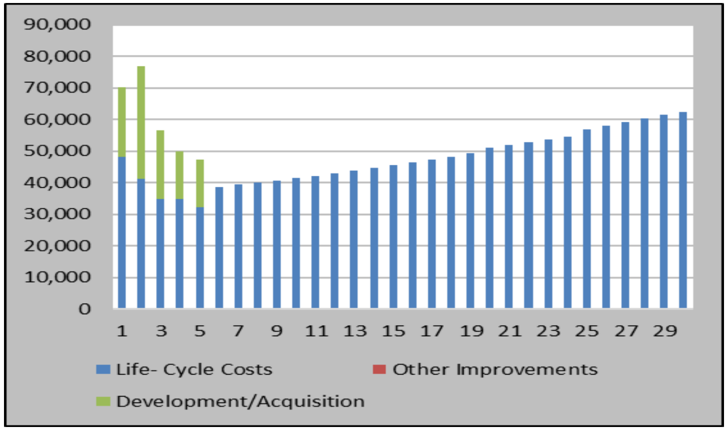
- Key Observations:
  - Rent levels are similar to most comparators – principally due to how rents are calculated and property values
  - Repairs expenditure is higher although 2020.21 may have been impacted by the Covid pandemic
  - Management costs are also lower and demonstrates efficiency compared to others (2022.23 implicated by inflation factors)
  - Depreciation charges are lower than the comparators although this could be due to how it is calculated, but is not a significant impact as is utilised on capital expenditure
  - Reserve levels are similar to others
  - Key is that the operating margin (surpluses before interest as percentage of income) is broadly similar to other comparators

Capital Investment Requirements

- Existing Capital Programme:

	2022.23	2023.24	2024.25	2025.26	2026.27
High Rise	18,229,800	19,391,200	18,833,000	18,833,000	11,733,000
Improvements	9,137,000	4,000,000	4,000,000	4,000,000	4,000,000
Disabled Adaptations	4,113,000	3,000,000	3,000,000	3,000,000	2,500,000
Workplace Vision	16,598,000	14,729,000	13,979,000	13,979,000	13,979,000
New Build	22,038,264	35,829,213	21,650,036	15,083,446	15,000,000

- Assumptions have been made for expenditure within the plan moving forward
- The aim is to publish an updated Asset Management Strategy in the coming year which will incorporate:
  - The results of new stock conditions survey carried out externally – as these become available.
  - Details of how we will approach building safety works.
  - Revised profiles for expenditure on energy efficiency.
  - Revised profiling of the capital programme as required.
- Other Factors:
  - Zero-Carbon
  - Decent Homes 2 & Building Safety
- New Build Programme (to 2026.27) delivers 475 homes



Developing the HRA Business Plan

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- A 30 Year financial cashflow model based on:
  - 2022.23 Budgets as a base
  - Inflation Factors
  - Variability in respect of stock losses – primarily through right to buy
  - Capital Investment in existing stock and other initiatives (initially based on current capital programme with assumed level of expenditure moving forward)
  - New build programmes (with associated costs, subsidies, rents and operating costs)
  - Financing of new debt (interest charges – but also capacity to do so)
  - Ability to (or requirement) to repay debt

- Projections demonstrate:
  - The revenue balances over a 30-year period
  - The capital expenditure forecasts (including new build) and how financed over 30 years
  - The level of borrowing and how it compares to provisional prudential rules (for the both the HRA and the Council as a whole)

- Focus on:
  - The HRA having a positive balance (illegal to set a HRA budget that results in deficit reserves for that year)
  - A fully funded capital programme whilst ensuring debt is within prudential rules

HRA Financing and Prudential Borrowing Limits

- Opening HRA debt stands at £484.886million (HRACFR HRA Capital Financing Requirement).
- The debt is currently financed by a combination of specific loans (£337m) with a balance of 'internal finance' from the General Fund

- New borrowing for development and investment in the existing stock will via new separate fixed rate loans at 4.25%.

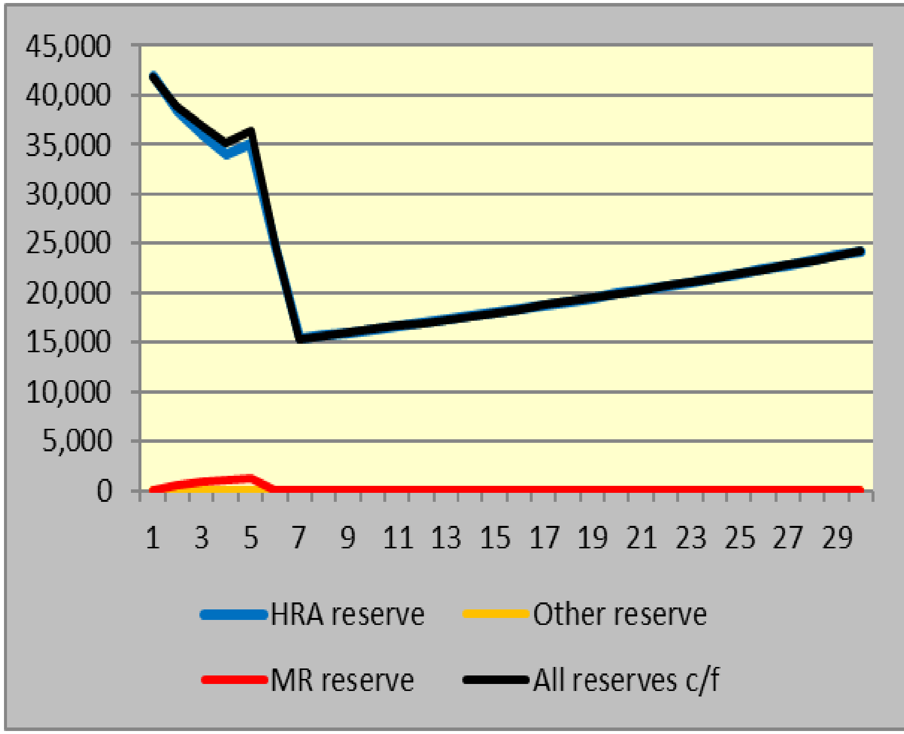
- Following the abolition of the debt cap in 2018, which stood at £507.297million, it is for the s151 officer to determine separate prudential borrowing rules in conjunction with the Council's overall limits.

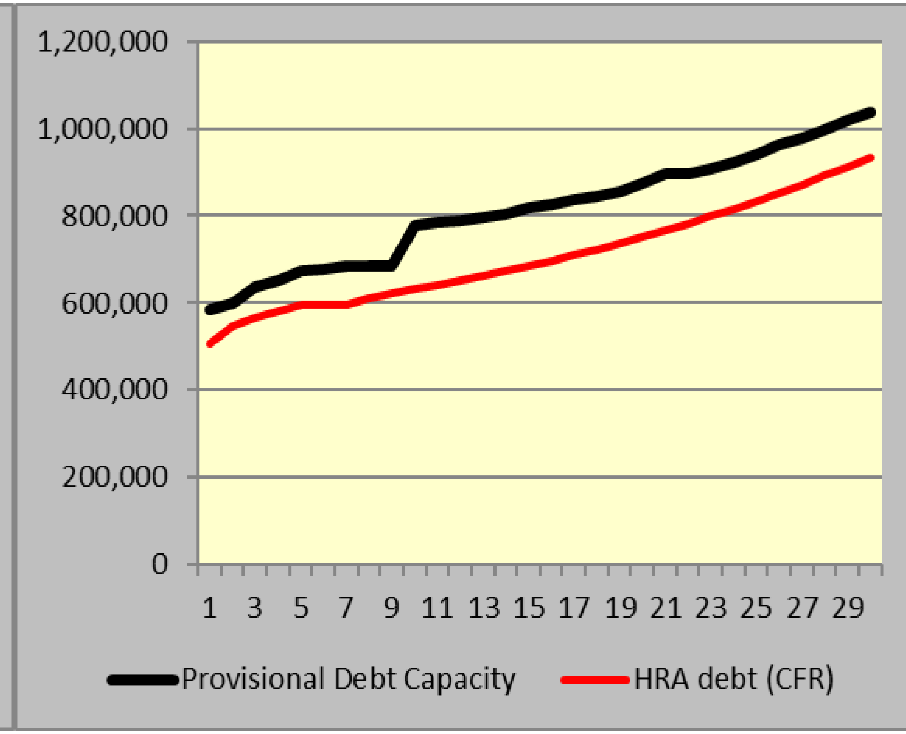
- The "golden rule" (to be agreed) that has been applied within this modelling ***assumes*** that:
  - The Interest Cover Ratio (ICR) is maintained at a minimum of 1.25. The ICR is calculated by the operating surplus divided by interest costs. The operating surplus is best defined as Turnover (dwelling rents, other rents, service charges, contributions) Less Operating Costs (general management, special management, other management, repairs & maintenance, major repairs).

    And
  - The Debt to Turnover ratio does not exceed 5

  - These ratios will be influenced by changes to future turnover, operating costs and interest rates and therefore the "golden rule" limit for borrowing will change over the duration of the plan.
  - The HRA should hold a minimum reserve balance of c£13million, which is inflated through the duration of the plan.

Business Plan Outputs – **Baseline Position**





- Above Forecasts based on core assumptions
- Provisional "Golden Rule" applied for prudential borrowing limits
- Borrowing increases to deliver new build and investment in the existing stock
- Total Forecast HRA reserves £24.2million and Debt at £932.1million in year 30
- Capital Expenditure is fully funded in each year

Business Plan Outputs – **Baseline Position (Sensitivities)**

Scenario	HRA Bal at Year 30 £'m	Debt at Year 30 £m
Base	**24.231**	**932.116**
Rents Increase at 2% (in place of 5% Years 2 & 3)	10.643	1,239.808
Repairs and Management Inflation 5% Years 2 & 3)	24.231	843.616
Rents CPI + 0.5% for 5 Years (Years 3-8)	24.231	818.831
Repairs +5% Year 3	24.231	1,177.433
Capital Exp +5% Year 3	24.231	1,133.516
Voids & Bad Debts +1% each	24.231	1,104.533
Interest Rate +1% new borrowing	24.231	1,073.006
CPI -0.5%	21.118	934.844
CPI +1%	31.837	932.067

Business Plan Outputs – **Growth Scenario (1)**

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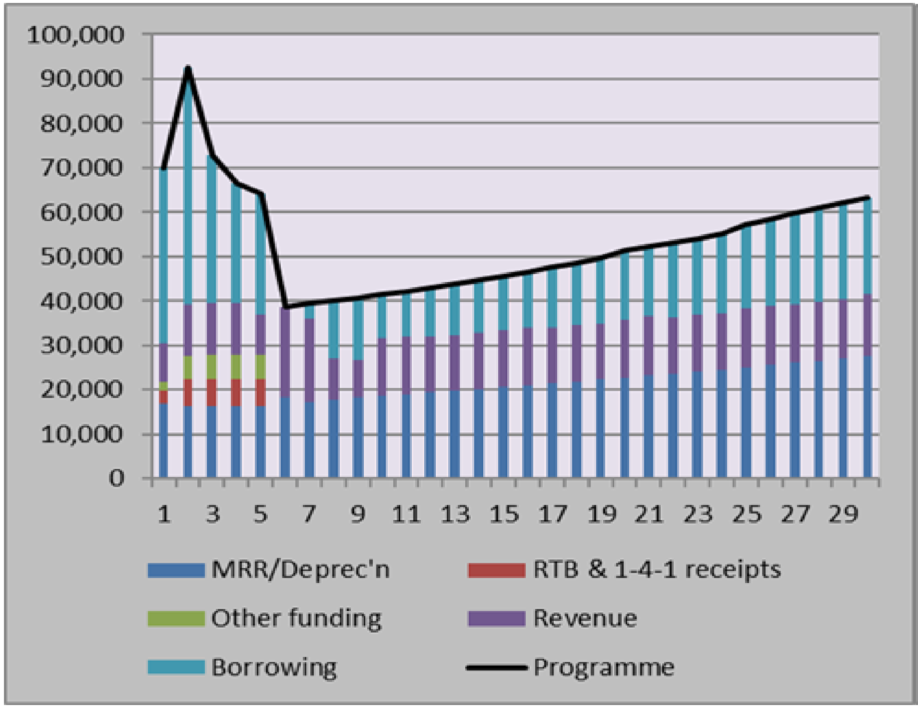
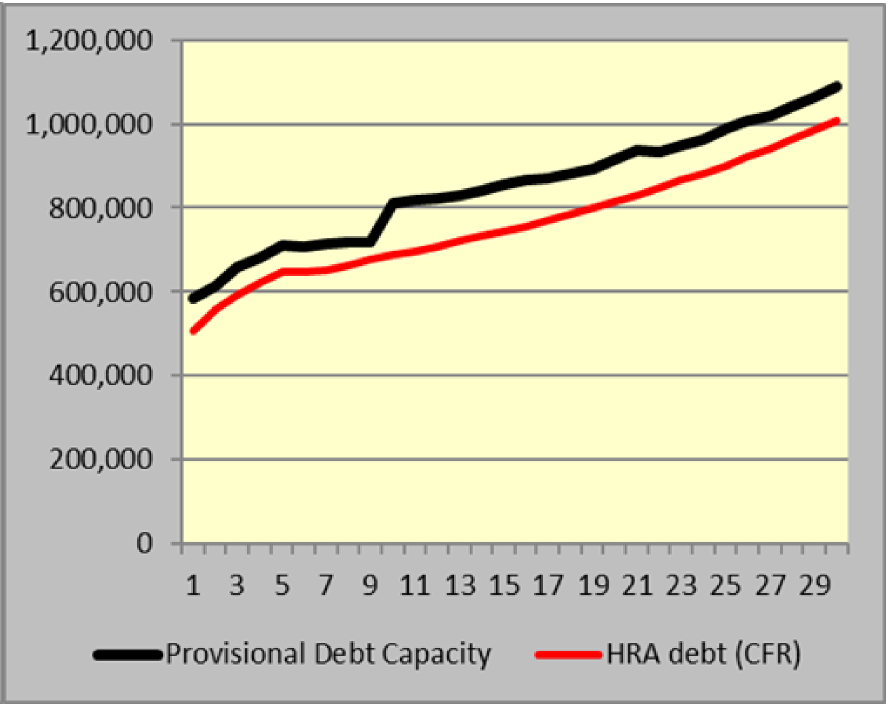
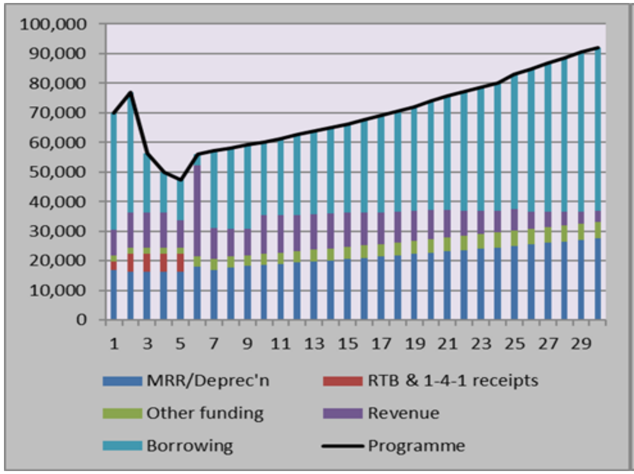


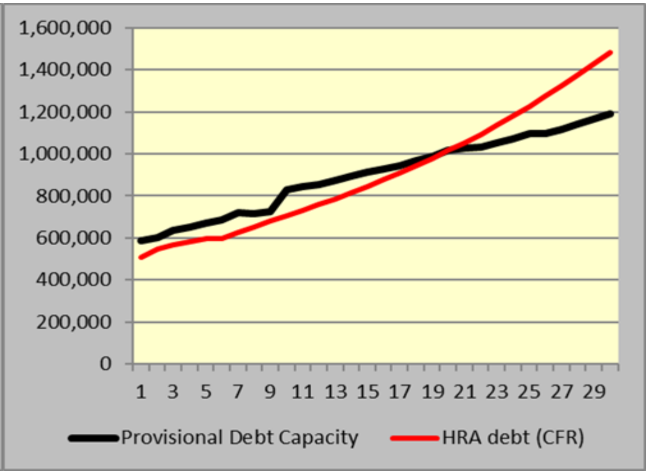


- Additional Development Modelled:
  - **240 Homes over 4 Years**
- Social Rent assumed with allowances for repairs and future maintenance
- 20% Subsidy against development and land acquisition costs of £250,000 per property
- The units increase maintain reserve balances at £24.2million at the expense of an increase of borrowing of £28.5million to £1.006billion.
- Borrowing is within proposed “Golden-Rules”

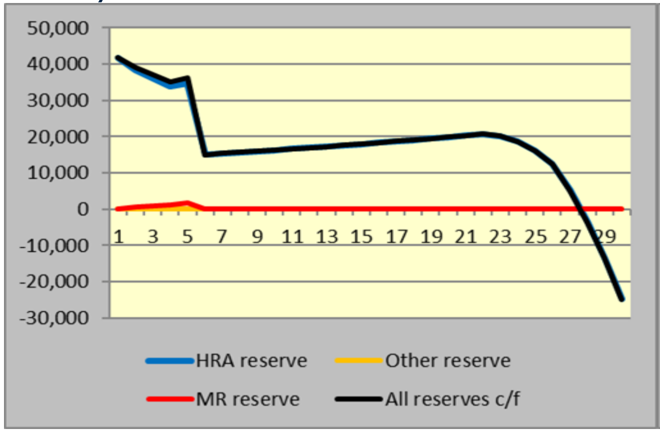
Business Plan Outputs – **Growth Scenario (2 & 3)**

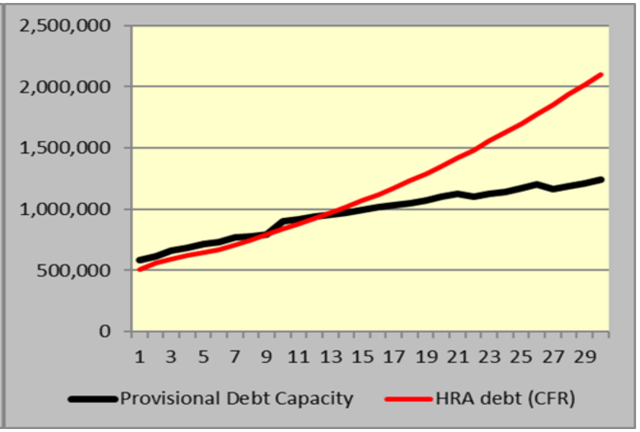
- Additional Development Modelled:
- **1,500 Homes over 25 Years**





- “Golden-Rule” exceeded from year 21 – growth of debt to £1.483billion – revenue balances maintained
- **3,240 Homes over 29 Years**





- “Golden-Rule” exceeded from year 13 – revenue balances fall into deficit position

Summary

- Business Plan shows a relatively viable position but requires ongoing debt
- Reasons for this include:
  - High inflation
  - Higher borrowing costs
- Requirement to establish accurate future investment costs in the stock whilst considering
  - Building Safety
  - Energy Efficiency
  - Mold & Damp
  - Zero Carbon
  - Future Asset Management Strategy

- Mitigating Factors
  - Potential for negative inflation
  - Potential for reduction in interest rates
  - Potential for new Social Rent Policy
    - Above CPI rent increases beyond April 2024
    - Re-introduction of rent convergence with formula rents
  - Potential for greater subsidies on new development