

EAST RENFREWSHIRE COUNCILCABINET19 June 2023Report by Director of EnvironmentINTERIM REVIEW OF HOUSING REVENUE ACCOUNT BUSINESS PLAN**PURPOSE OF REPORT**

1. The purpose of this report is to advise Cabinet on the outcome of an interim review of the Housing Revenue Account (HRA) business plan and the measures available to manage the temporary deficit in the years 2024/25 and 2025/26.

RECOMMENDATIONS

2. The Cabinet is asked to note:
- a) the financial pressures that the HRA business plan faces;
 - b) the various measures available to manage the forecasted deficit in the years 2024/25 and 2025/26 outlined in paragraph 15;
 - c) that the rescheduling of inherited debt repayments should reduce the financial pressures over the next few years; and
 - d) the intention to further review aspects of the 30 year HRA business plan in the coming months and any potential change to the treatment of loan charges will be submitted, together with any other proposals, to Council for approval.

BACKGROUND

3. Local authorities that are social landlords are expected by best practice to maintain a thirty year business plan for the Housing Revenue Account. The Housing Revenue Account (HRA) is the name of the Council account where all the income and expenditure related to the Council's housing is accounted for. The HRA pays for the management and maintenance of council-owned housing and must include the revenue impact of capital investment. This includes non-domestic assets held by the HRA for either income generation or development purposes and also the provision of new council housing. The Council must also prepare a Housing Capital Plan which will include investment in the existing housing stock and investment in any new build council housing.

4. The business model for the HRA is calculated over a thirty year period. The costs of capital investment are spread over the estimated useful life of the investment rather than being funded from revenue in the year of the investment. Such an approach ensures that rent from future tenants who will benefit from these investments will contribute to the cost of the investment and also that tenants who leave ERC will not have over contributed. Furthermore it can smooth out peaks and troughs in capital expenditure.

5. The HRA business plan has, similar to the General Fund, been subjected to a number of pressures such as inflation and a higher than expected pay increase. Due to the statutory ring-fencing of the HRA all cost pressures must be managed within the approved rent increase. For example, the 22/23 pay offer agreed by COSLA with the unions was higher than budgeted and, while some additional General Fund resource was provided by the Scottish Government, this additional resource was not available to the HRA.

6. The business model is reviewed annually and data that is input includes:-

- Current year estimated costs and rental income;
- Projected budgets for future years based on inflation/pay rise predications, rent increase assumptions, estimated levels of bad debt provision and voids; and
- Capital investment plans, including investment in new build houses, and associated estimated loans fund repayments.

7. The levels of investment and estimated loans fund repayments have a substantial impact on the HRA business model. The Council's loans fund repayment policy for both HRA and General Fund was revised in line with Scottish Government guidance approved at Council on 3 March 2022. This has meant that for new investments, the Council has moved from an annuity repayment method (i.e. equal payments over the life of the loan) to an equal instalments method (i.e. equal payments of principal, plus interest methodology). This has the impact of making repayments higher at the start of the repayment period and lower towards the end.

8. Due to the high levels of capital investment for new council house building, this change in methodology has had a significant impact on the loans charges to be funded from the HRA. Loans charges will now be significantly higher over the next few years than originally calculated when the capital investment in new council housing was approved. However this is a temporary issue as some "inherited debt" (see below) is due to be paid off over the next few years. After that the HRA is likely to be in a positive position.

9. This change required the use of *additional* reserves to manage the situation in year until a longer term solution could be identified (it should be noted that there was already an intention to use some reserves to address a short term deficit related to inherited debt). As a consequence the 2023/24 HRA budget approved by Council on 1st March 2023 included a drawdown of £824k from reserves. The accompanying report noted that this could potentially reduce reserves to £482k at the end of 2023/24 and that the business plan would be reviewed in the first quarter of the new financial year to consider the following options:-

- Review of historic debt and repayment terms (Note, "Historic debt" refers to debt that the HRA inherited from its predecessor Councils at the time of local government re-organisation. To differentiate this from the debt that East Renfrewshire Council has acquired since that date, from here on the term "inherited debt" will be used);
- Review of capital receipt process;
- Reduction in services and non-essential spend; and
- Higher rent increases for 2024/25 & 2025/26

10. The purpose of this paper is to present the findings of the interim review and set-out the options available to manage the budgetary pressures. Work will be undertaken in the coming months to update the 30 year HRA business plan and a further report will be submitted to Council with an updated plan later in the year.

REPORT

11. The business plan requires to be updated in line with the capital plans, revenue budget and loans fund repayment policy approved at the Council meeting on 1 March 2023.

12. Following a high level review of the business plan using the approved 2023/24 budget as a base and reflecting the capital investment plan approved by Council on 1st March 2023, together with the updated loans fund repayment policy the position for the next 5 years (if no further action is taken) is shown in the table below:-

	2023/24 (Base Yr)	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Net Expenditure	£nil balanced	£1.11m deficit	£1.23m deficit	£0.79m surplus	£0.77m surplus	£0.87m surplus	£0.09m surplus
Loan Charges (included in above)	£5.31m	£5.87m	£6.41m	£4.78m	£5.08m	£5.18m	£32.63m
Planned use of reserves (included in net expenditure above)	£0.824m	£nil	£nil	£nil	£nil	£nil	£0.824m

13. The updated estimated level of reserves as at 31 March 2024 to support the above is £974,000. This is a provisional estimate and is dependent on both the finalisation and audit of the accounts for the year-ending 31 March 2023. It also assumes the approved estimate of £824,000 for 2023/24 will be used in full.

14. The main reason for the deficit in 2024/25 and 2025/26 is a peak in the loan fund repayments with estimated insufficient reserves available to support the HRA during these years. The change in the loan fund methodology during these years contributes approximately £400k to the deficit in each year; £800K in total. Estimated reserves of £974k will be insufficient to cover the deficit of £2.34m over these years and further action is therefore required.

15. A number of measures are being considered to address the deficit:-

- a. Review of base budget to identify savings – the 2023/24 budget will be compared with the actual outturn for the year-ending 31 March 2023. The purpose of this exercise is to ensure the base budget is an accurate reflection of the current cost of the service and to identify any areas of savings which can help address the deficit. In addition the 2023/24 capital plan will be adjusted to account for actual levels of expenditure incurred during 2022/23 and expenditure transferred to 2023/24. The draft outturn position will not be available until mid June 2023;
- b. Review of rent levels and service charges from 24/25 onwards;
- c. Review of non-essential spend;
- d. Review of capital receipts process - while it is not possible to use capital receipts to fund revenue expenditure it may be possible to apply a capital receipt directly against the loans fund balance and reduce loan fund repayments in year of receipt. This approach is currently being investigated; and
- e. Review HRA loan fund repayment term and policy – while there are a number of cost pressures impacting on the HRA, the main contributor to the short term deficit is the peak in loan fund repayments. Consideration will be given to the loans fund repayment term and policy to help “smooth” the deficit/surplus over

19. This potential change will be discussed further with external audit before being submitted, together with any other proposals, to Council for approval.

20. From the options outlined above, there appears to be scope to address the HRA short term deficit while limiting the impact on tenants and the service provision however further work will need to be undertaken to review the business plan accordingly in advance of reporting back to Council.

21. In terms of paragraph 15d, it should also be noted that the Housing Service is currently selling the land Barrhead South as agreed at Cabinet 22nd October 2020 https://www.eastrenfrewshire.gov.uk/media/4000/Cabinet-Item-07-22-October-2020/pdf/Cabinet_Item_07_-_22_October_2020.pdf?m=637377693244930000

22. Good interest has been received for the site. However, due to uncertainty around both the timing and the size of the receipt, it would not be prudent at this stage to take this receipt into account when considering the short term pressure being faced.

FINANCE AND EFFICIENCY

23. Financial planning is challenging particularly in the current economic environment. The HRA budget is under significant financial pressure from pay awards, inflation and a peak in loan funds repayments. While the current year's budget is supported by a £824,000 drawdown from reserves this level of support is unlikely to be available in future years. A high level review of the business plan over the next 5 years shows a deficit in the years 2024/25 and 2025/26 before returning to surplus.

24. Various measures are available to manage this issue including the rescheduling of inherited debt. Extending the inherited debt repayment term will result in additional cost of £240,000 over the 5 year period but will help limit the rent increase for tenants. Any amendment to the loans fund repayment policy will need to be approved by Council.

25. Figures in this report are based on provisional outturn information and will be updated in subsequent reports to reflect the actual 2022/23 outturn position.

CONSULTATION

26. No consultation has been necessary in the preparation of this report although tenant consultation takes place each year with tenants and will be undertaken as part of the further review of the business plan.

PARTNERSHIP WORKING

27. This paper has been prepared by officers from Housing Services and Accountancy. The Estates team have confirmed that the lifespan of the assets are greater than the proposed time period during which the debt will now be repaid.

IMPLICATIONS OF THE PROPOSALS

28. There no implications arising from this report in terms of staffing, legal, IT, Subsidy Control, sustainability, equalities and climate change.

29. In terms of property the Estates team have confirmed that the lifespan of the assets is greater than the illustrated time period during which the debt might be repaid.

CONCLUSIONS

30. The HRA faces a short term financial pressure as a result of a combination of high inflation, a peak in loan charge repayments and a reduced level of reserves. Among the range of measures available to address this issue, the re-profiling of the inherited debt with effect from 1 April 2024 and extending the repayment term by 3 years to 31 March 2029 would relieve this short term pressure. The HRA business plan will also be reviewed in the coming months to better support future housing ambitions.

RECOMMENDATIONS

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Director of Environment

Further information can be obtained from Phil Daws, Head of Environment (Strategic Services) 0141 577 3186 or phil.daws@eastrenfrewshire.gov.uk

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