

EAST RENFREWSHIRE COUNCIL

Cabinet

7 November 2024

Report by Director of Environment

HOUSING REVENUE ACCOUNT: 30 Year Financial Business Plan

PURPOSE OF REPORT

1. The purpose of the report is to advise Cabinet of the 2024/25 review of the Housing Revenue Account (HRA) business plan and the implications for service delivery and investment.

RECOMMENDATIONS

2. The Cabinet is asked to note:
- a) The current financial status of the HRA and key activity areas for focus in 2024/25 & 2025/26;
 - b) The assumptions made for future years around rent increases and the HRA debt affordability ratio;
 - c) The future investment pressures and the impact on the 30 year business plan; and
 - d) The annual submission of a detailed 10 year capital programme to Council.

BACKGROUND

3. The Housing (Scotland) Act 1987 requires local authorities to prepare a Housing Revenue Account (HRA). The HRA is separate from the General Fund (GF) of East Renfrewshire Council (which sets out income & expenditure associated with Council Tax and Scottish Government (SG) Grants. An HRA in Scotland is required to be self-financing and must balance each year. It is by statute a ring-fenced account managing the income and expenditure of specific housing related activities. Consequently, HRA resources may only be spent on matters relating solely to or deriving substantial benefit to tenants; HRA resources cannot be used for other purposes inconsistent with these requirements and may not be used to cross subsidise GF spending pressures.

4. The HRA is responsible for all social housing owned by the Council, including sheltered housing. It also includes lock-ups and garage sites, related open spaces, roads and footpaths which are not adopted by the Roads Service. There are also a number of commercial buildings and shops. In managing the HRA, local authorities are expected to prepare a 30 year business plan which addresses all of these factors.

5. This is to ensure that all opportunities to maximise income, offset current and future liabilities and/or to achieve capital receipts where appropriate are explored in order to derive maximum benefit for HRA tenants in respect of the management and maintenance of their homes and all other HRA assets. Whilst these non-Housing HRA assets are relatively minor in scale, nonetheless the more effectively these are managed and monetarised then the lesser the impact on housing rental charges. Furthermore, the more efficiently that the HRA is managed creates opportunities for revenue growth and investment and/or in constraining the rate at which rents might otherwise be required to increase to sustain our housing ambitions for new builds and investing in existing stock.

6. The 30 year business plan will assess the impact of capital investment costs on revenue loan charges. It is important that current capital investment decisions do not place an unnecessary burden on future rent payers or indeed the Council more generally. Capital spends and investment decisions must therefore not only be considered from the perspective of the impact on the loans charges, but also in terms of any additional revenue budget implications that may arise from future additional maintenance spend requirements that may be created as a result. Sustainable capital investment requires not just a consideration of the capital cost of the project but the whole cost of managing, maintaining and eventual remodelling and/or disposal of an asset in due course as may be appropriate, at the end of its useful asset life/design life.

7. An interim report was submitted to cabinet on [19 June 2023](#).

REPORT

8. In addition to the key income and expenditure needs, the business plan needs to ensure that as a social landlord, the Council can meet all its statutory obligations. These are in place to ensure our assets and services to tenants are appropriate. These include, as non-exhaustive examples:

- Housing Scotland Act 2001
- Scottish Housing Quality Standard (SHQS)
- Energy Efficiency Standard for Social Housing (ESSH)
- Scottish Social Housing Charter 2014

9. In February 2023, the Scottish Government made a decision to review the ESSH, with a view to strengthen and realign the standard with Net Zero requirements. An update on this was published by the Scottish Government in November 2023 and followed with a consultation that closed in March 2024. This is a consultation to seek views on a new Social Housing Net Zero Standard (SHNZS) in Scotland. The new SHNZS is not expected to be published until March 2025. As such, this creates uncertainty around future investment needs, and it is likely that future iterations of our 30 year business plan will need to be flexed to accommodate the implications of this process once it becomes exactly clear what they are.

10. The 10 year capital programme is presented to Council every February, informing members of the 10 year investment needs and seeking consent to proceed with the following years programme. For 2024/25, the budget was set in [February 2024](#) and updated at Full Council in [June 2024](#).

Income

11. The main source of income for the HRA is the rent charged to Council tenants. This is supplemented by other charges for lock-ups/garage sites, commercial units and re-chargeable repairs. With exception of income borrowed from the Scottish Government, HRAs do not receive any other income to deliver services.

12. In setting rent levels, the Council must consider all legislative requirements and local priorities. Once this is clear, the Council must ensure that it achieves an acceptable balance between meeting these requirements and priorities, and agreeing rent levels that are sustainable, affordable and acceptable to tenants.

13. East Renfrewshire Council's rents are higher than the Scottish average for both Scottish Councils and other Registered Social Landlords. However, in context these have been assessed to be affordable and the Council remains the most affordable housing provider in the area. Income from tenant rents is essential to enable us to be able to afford to borrow

to continue to invest in our existing stock, and in order to ensure that we are able to continue to support the building of much needed additional Council housing. There is a direct link between our revenue streams and our approaches to the level we set future years rents at across our HRA portfolio, and consequently our ability to meet the statutory requirements around Net Zero and general fitness of our existing stock, as well as our ability to fund future new build ambitions. It is recognised that this will require to be met in a way which is reasonable, proportionate and affordable to our tenants.

14. In order to meet the future investment needs, but also ensure rent levels are affordable across the 30 year period, the business plan assumes that rents will rise at an average of the Retail Price Index (RPI) plus 1%. It also assumes that RPI plus 1% will equate to 2% for future years, though this will be subject to regular reviews for affordability, both from the tenant perspective and from the perspective of addressing the issues set out in paragraph 13 above. The actual percentage will depend upon the actual RPI figure in any relevant year.

15. Housing Services will undertake a rent consultation with Council tenants in the coming months following the same approved statutory processes as it has done in prior years. The options provided will be based on assumptions made in the business plan but also any current financial pressures such as:

- A higher than expected pay rise agreement;
- Increasing construction and maintenance costs; and
- Additional costs as a result of any regulatory or statutory interventions from Government.

16. The outcome from the consultation exercise set out in paragraph 14 above, together with options for consideration and recommendations will, as in previous years be presented to Council for approval as part of the annual budget setting process.

Additional Income (pension windfall & Barrhead South)

17. The HRA business plan has benefited from both a significant capital receipt from the land sale at Barrhead South and reduced expenditure from the pension windfall. The land at Barrhead South delivered a receipt of £12.2m. The income from this receipt has been placed in the capital reserve to support capital investment in the current and next two financial years thereby reducing borrowing in these years.

18. The decrease in expenditure from the pension windfall is being used to reduce the draw down on reserves for 2024/25 and 2025/26. This amounts to approximately £400k each financial year.

Debt Affordability

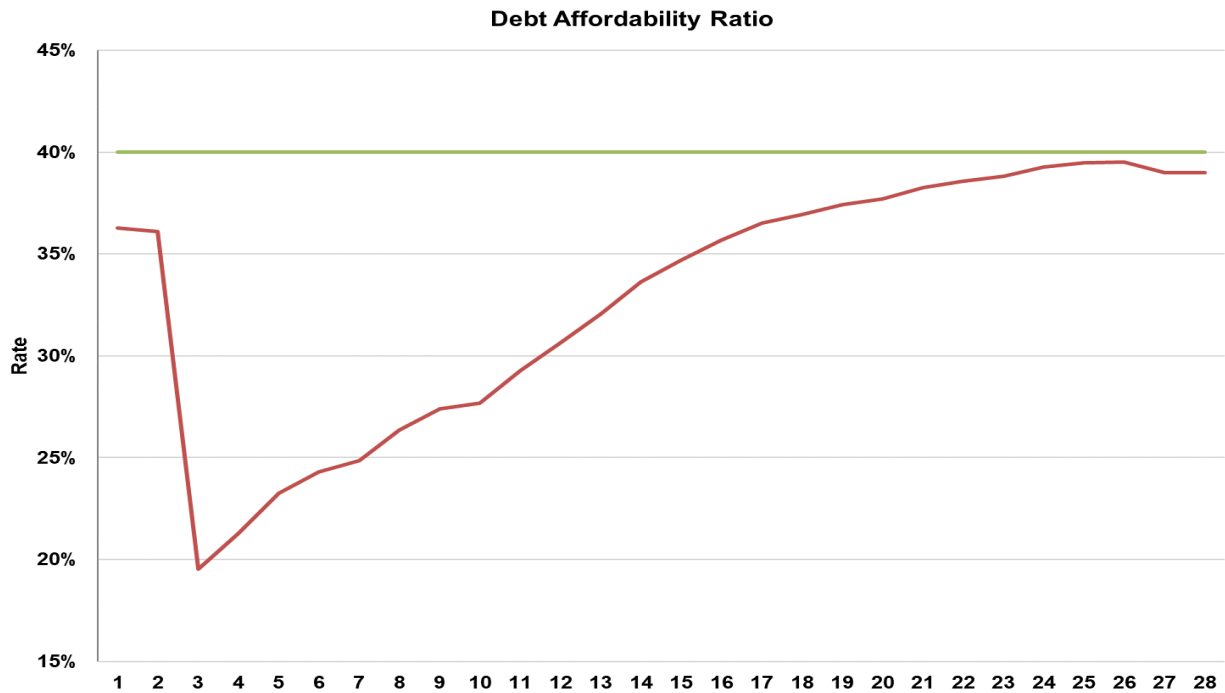
19. Whilst this capital receipt will help to reduce borrowing needs; the stock requires ongoing investment to ensure that it meets all relevant statutory standards of general fitness and energy efficiency. Housing Services will still require to borrow in order to fund the capital investment programme. This borrowing is paid back with interest over a number of years.

20. Whilst there is no legal limit, it is generally accepted good practice for the debt affordability rate to be at or under 40% for an HRA. This essentially means that loan repayment charges should not be above 40p for every £1 of rent received. However, that does not mean that there cannot be fluctuations above and below that ideal maximum position, as long as the medium to long term average sits at or around 40%.

Chart: Debt Affordability Ratio

- Debt Affordability 40% 

- ERC Debt Affordability —————



21. The chart above demonstrates the debt affordability of the 30 year business plan. The red line represents the percentage of revenue costs used to repay debt; the green line represents the 40% debt affordability limit. Members will note from the chart that whilst the debt affordability rates do drop significantly from year 3 (2026/27), they begin to steadily climb again thereafter reaching 40% in year 26 (2050/51). It is important to note that the investment decisions made now, can have a significant impact on future years. Decisions taken in relation to capital investment impact not only future debt affordability percentages, as represented in the graph above, but they will also impact on the Council's HRA revenue maintenance and cyclical maintenance budget requirements. Similarly, the risk profile adopted in respect of debt affordability will inform the envelope available for capital funding and therefore what money is available to provide investment in new build and existing stock without disproportionately requiring significant rent increases that might impact on tenant affordability.

Historic Debt

22. It has been common practice for social landlords to borrow over a 30 year period. As such, the Council is still paying off debt inherited from Renfrew and Eastwood District Councils at the time of re-organisation. The impact of the final years of the historical debt is seen in the chart above for years 1 (2024/25) and years 2 (2025/26). It shows that it will be a number of years before the 40% debt affordability guideline position for the HRA is approached based upon the current trajectory and projections, however, this will require to be monitored and updated regularly to ensure that affordability ratios are maintained within approved limits.

Future Borrowing Requirements

23. Whilst in the past, borrowing for capital investment has been paid back over 30 years, any new borrowing within the current programme varies depending on the lifecycle of the asset. For example, borrowing for internal improvements such as kitchens and bathrooms is paid back over a 10 year period, whereas external elements such as roof and render are paid back over 40 years. East Renfrewshire Council has also borrowed for new Council housing over a 40 year period. Borrowing for new build is under review and the existing business plan is based on a borrowing for new Council housing over a 60 year period. Approval for this change will be sought as part of the annual treasury management review.

Table: 30 Year HRA Capital Investment Needs (£000s)

	Year 1 (24/25)	Year 2 (25/26)	Year 3 (26/27)	Year 4 (27/28)	Year 5 (28/29)	Years 6-10 (29/30- 33/34)	Years 11-30 (34/35- 53/54)	Total
Existing Stock	4,481	6,633	7,126	7,065	7,522	29,116	113,865	181,801
New Homes	19,750	375	10,075	4,400	300			34,900
Total	24,231	7,008	17,201	11,465	7,822			216,701
Revenue Investment	0	0	0	2,274	2,089	9,923	20,345	34,631

24. The table above demonstrates the assumed investment costs over the 30 years of the plan. The investment programme is based on the need to ensure existing council stock meets current and future statutory conditions. As noted in paragraph 8, the future investment costs around SHNZS are unclear and therefore the table represents our best estimate of future costs at the point of authoring this paper; as these and other costs crystallise, we will provide further updates.

25. The table above also demonstrates the potential revenue investment. After year 3, the business plan indicates the HRA will be able to make a contribution from revenue to subsidise capital investment. This will reduce the annual borrowing required and the associated annual loan repayment costs. This is vital to ensure that the debt affordability remains under 40%.

26. In addition to the investment in current stock, given housing need pressures in East Renfrewshire, there remains a constant need for new housing. The current plan will provide up to 171 new homes between 2024/25 to 2027/28, this includes the 105 units currently being delivered at Maidenhill. We will continue to look at any opportunities presenting themselves to acquire or build additional units as and when these become available insofar as these are considered to be affordable within the prudential borrowing limits that the Council must observe. However, it is also important to note that we still have statutory duties, as mentioned above, in terms of the condition of our existing stock. Consequently, as well as general debt affordability issues, we will require to get the correct balance between investing in existing stock and in new build/additional acquisitions, and in how much we borrow and how much we require to increase rents by whilst maintaining affordability.

27. At present there is no capacity within the business plan to extend the target for new build social housing by the Council for the reasons, in summary, narrated in the preceding paragraphs of this report. However, this position will be reviewed on an ongoing and annual basis and our ability to change this will depend on a number of factors; our position on the HRA debt/affordability ratio, and our position on setting rents, and our decision on resource allocation between new build housing and ensuring our existing stock meets the statutory requirements around general fitness and energy efficiency measures. Members should note that any new projects are dependent on grant funding for affordable housing, which was cut nationally by 25%, with funding at similar level expected to continue into subsequent years.

Contribution from Reserves

28. Members will note from the report presented in June 2023 that the pressure of loan charges was having a significant impact on reserve levels, and it was estimated that reserves may be exhausted by 2024/25. As a result of the significant capital receipt and the reduction in expenditure from the pension windfall, the reserve levels are within a healthy range in 2024/25 at £1.8m. However, these will be required to support the repayment of inherited debt for 2024/25 and 2025/26 and expenditure in these years must be prudent.

29. From year 3, the HRA is able to rebuild reserves to a healthy level. There is no agreed or approved minimum reserve levels for the HRA. However, to ensure reserve levels are at an appropriate level to meet any future unexpected needs, a reserve level of 7-8% will be proposed as the baseline assumption over the life of the business plan and is considered to be a reasonable and proportionate medium risk approach for HRA reserves; this particular provision can be revised if appropriate in future years updates of this business plan.

FINANCE AND EFFICIENCY

30. Financial planning is challenging particularly in the current economic environment. Whilst the financial outlook of the business plan has significantly improved, the HRA budget is under significant financial pressure from pay awards, inflation and ongoing loan funds repayments.

31. A number of measures are now in place to manage these issues, including use of additional income to support the capital reserve and reduce borrowing and the re-scheduling of debt for new council housing.

32. Whilst it is important that investment decisions are made to improve and enhance tenants' homes, high levels of debt are a risk. Therefore, debt levels must be appropriate but prudent to mitigate any impact of high interest charges. This risk will be reviewed on an annual basis.

CONSULTATION

33. No consultation has been required in the preparation of this report, although as is statutorily required, tenant consultation takes place each year on rent levels, and we also consult with tenants with regards to our capital investment proposals.

PARTNERSHIP WORKING

34. This paper has been prepared by officers from Housing Services and Finance.

IMPLICATIONS OF THE PROPOSALS

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

CONCLUSIONS

36. As noted in the paper submitted to cabinet June 2023, the HRA faced a short-term financial pressure as a result a combination of high inflation, a peak in loan charge repayments and a reduced level of reserves.

37. The business plan is supported and developed in conjunction with Housing Service Asset Management Plan. The aim is to set an investment level which is both ambitious but sustainable in the long term.

38. However, a number of changes have taken place to mitigate this impact including:

- A significant capital receipt from the sale of Barrhead South; and

- An assumed change to the borrowing period of new council homes from 40 to 60 years (subject to approval in Treasury Annual Review).

39. Members should note that whilst the position of the business plan has greatly improved. Years 2024/25 & 2025/26 remain a challenge due to the impact of historic debt payments, albeit nonetheless still under the 40% accepted good practice debt affordability ratio limit measure. Furthermore, whilst the financial position improves significantly from 2026/27, the impact of future investment needs will put pressure on loan repayments in future years.

40. It is vital that decisions taken at this stage not only ensure rents are affordable to existing and future Council tenants, but that borrowing decision are also taking account of future generations.

RECOMMENDATIONS

41. Cabinet is asked to note:

- a) The current financial status of the HRA and key activity areas for focus in 2024/25 & 2025/26;
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Director of Environment

Further information can be obtained Mark Rodgers, Head of Housing & Property; mark.rodgers@eastrenfrewshire.gov.uk

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