

Report to: Cabinet



Date of Meeting 3 September 2025

Document classification: Part A Public Document

Exemption applied: None

Review date for release NA

Housing Revenue Account Business Plan - Update Report

Report summary:

This report provides an update on the Housing Revenue Account (HRA) Business Plan and associated strategic documents that underpin the effective management and investment in East Devon District Council's housing stock to ensure the housing service remains financially viable, sustainable, and responsive to tenant needs.

Is the proposed decision in accordance with:

Budget Yes ☒ No ☐

Policy Framework Yes ☒ No ☐

Recommendation:

That Cabinet;

1: Note the HRA Business Plan position and required efficiency savings.

Reason for recommendation:

To enable the development of a long-term sustainable Business Plan to ensure sufficient investment in the housing stock

Officer: Liam Reading: Assistant Director – Programmes, Investment & Development

Portfolio(s) (check which apply):

- ☐ Assets and Economy
- ☐ Communications and Democracy
- ☐ Council, Corporate and External Engagement
- ☐ Culture, Leisure, Sport and Tourism
- ☐ Environment - Nature and Climate
- ☐ Environment - Operational
- ☐ Finance
- ☐ Place, Infrastructure and Strategic Planning
- ☒ Sustainable Homes and Communities

Equalities impact Low Impact

Climate change Medium Impact

Risk: Medium Risk; Long term business planning includes inherent risk which is mitigated through constant review

Links to background information .

Link to [Council Plan](#)

Priorities (check which apply)

- ☒ A supported and engaged community
 - ☒ Carbon neutrality and ecological recovery
 - ☐ Resilient economy that supports local business
 - ☒ Financially secure and improving quality of services
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Housing Revenue Account Business Plan - Update Report

Background / Context

1. The HRA continues to face significant financial pressure in the immediate and longer term. These pressures arise from a range of factors including an historic underinvestment, increased consumer and regulatory standards, general inflation, restricted rent increases, net zero expectations, disrepair claims, complaint resolution, high void and decant costs and other issues. This situation is not unique to East Devon with similar cost pressures being seen amongst other housing providers and stock holding local authorities.
2. As members will be aware, the 2023/24 HRA budget outturn and capital spend far exceeded the planned budget. This necessitated the contribution of all HRA earmarked revenue reserves and required £2.5m of additional borrowing. Furthermore, the adopted HRA 'balance reserve' was reduced from an adopted minimum of £3.1m to £1.76m.
3. Shortly after the start of the 2024/25 financial year, it was established that the proposed budget would be insufficient to meet the needs and demands of the housing service and provide the investment required to ensure decent and regulatory compliant homes. A revised budget was approved by Council in July 2024.
4. Improved budget management, monitoring and controls meant the 2024/25 Budget outturn was within budget at year end. This represents a significant improvement on the previous year and reflects significant improvements in financial planning and management of the HRA.

Business Plan Overview

5. The previous HRA Business Plan has expired and requires updating to reflect current circumstances and the future investment needs of the stock. The purpose of a Business Plan is to ensure long term financial sustainability over a 30-year period and ensure sufficient resources are available for the management, maintenance, repair and improvement of the stock. Business plans should also consider maintaining stock levels through acquisitions, development and estate regeneration.

6. The HRA Business Plan will provide the overall financial framework for the HRA. Operational management and delivery details are set out in accompanying documents such as the Asset Management Plan and Housing Investment and Delivery Plan etc.

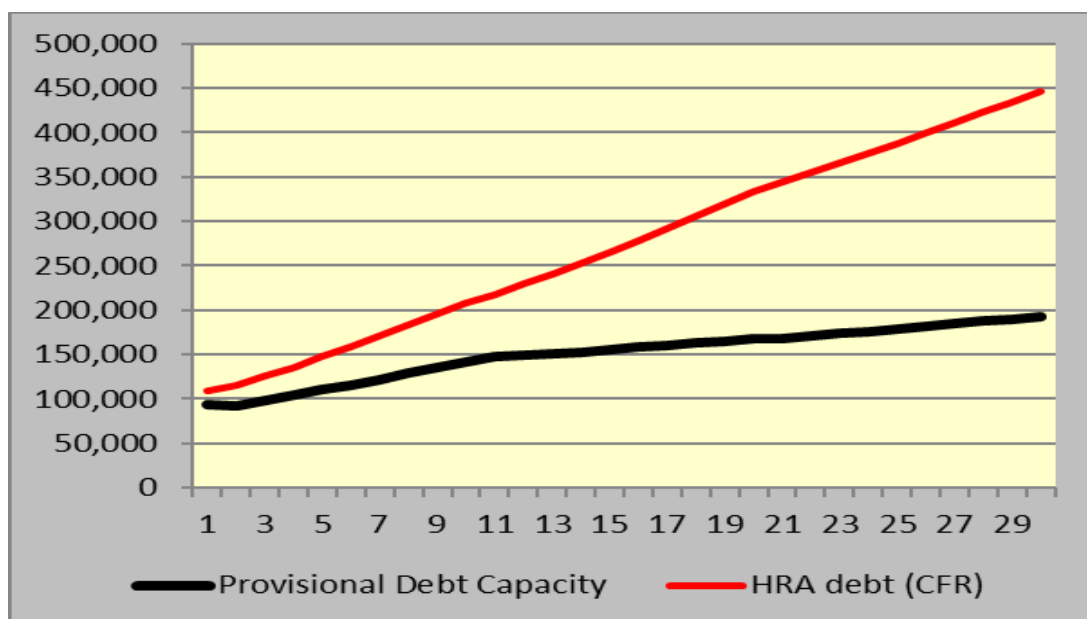
Business Plan & Stock Options Review

7. The Council commissioned Savills to undertake a Business Plan Review and develop a bespoke financial Model for East Devons HRA stock. The key components of the model include;
 - **Income Forecasts:**
Primarily from tenant rents and service charges, including projections based on rent policies and potential rent increases.
 - **Expenditure Forecasts – Revenue**
Routine maintenance and repairs, housing management and staffing costs.
 - **Capital Programme:**
Investment plans for maintaining existing stock and building new homes. This includes investment in major improvements such as roofs, kitchens, bathrooms etc and other compliance elements.
 - **Debt Management:**
How loans for capital investment will be repaid over time. Includes interest and principal repayment plans.
 - **Risk Management:**
Assessing uncertainties such as policy changes, inflation, or economic downturns.

Business Plan Modelling: Base Position

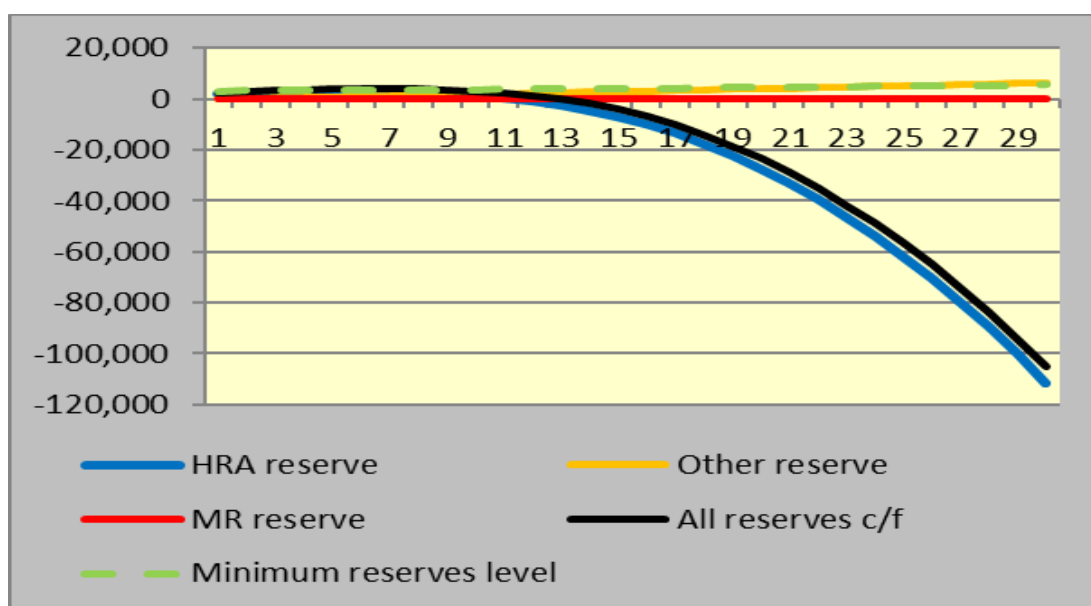
8. The modelling process establishes a base position, reflecting the Council's current financial position and the current approved budget 2025/26. This base position is projected forward, taking account of various factors including the investment requirements of the stock and other assumptions around inflation, borrowing cost and annual rent increases etc.
9. The level of investment that has been assumed for business planning purposes has been informed by the stock condition survey. It should be noted that this level of investment is estimated and has been used to guide the process. An indicative level of investment of £67,439 per property or £281m in total has been assumed over 30 years. This aligns with comparable average stock investment levels, as advised by Savills, and is considered to be a reasonable assumption.
10. In simple terms, the base model establishes the viability of delivering the required level of investment in the stock, whilst continuing to operate on the current revenue budget basis. The model shows the current HRA base position as being highly unsustainable. The level of borrowing/debt becomes significantly above prudential debt capacity i.e. our revenue would be insufficient to service the debt. This would result in the revenue account reaching a critical point within around 10 years.

11. The graph below illustrates how debt, arising from stock investment, is above capacity (red line), and escalates significantly above capacity (black line), over the 30-year business plan period.



Graph 1 – Debt Projection

12. The graph below shows how income does not support the proposed level debt/borrowing. This would result in the revenue / reserve position turning negative in around 10 years i.e. the HRA would be unable to service the debt.



Graph 2 -Revenue Projection

Business Plan: Achieving a sustainable position.

13. In order to support the required level of borrowing for stock maintenance and investment, the HRA needs to reduce revenue expenditure by 15%, or in cash terms by around £2.6m. Whilst achievable, this scale of reduction is significant and highly challenging. It is therefore essential that an Efficiency Plan is established to achieve a long term sustainable position.
14. The following outlines a broad approach to the required savings and efficiencies. It is considered realistic to phase these efficiencies/reductions over a 5 year period with a 2.5%

reduction in revenue expenditure in each of the next 4 years, followed by a 5% reduction in year 5. Reductions would formally commence in 26/27 and continue through a potential transition to a new authority under Local Government Reorganisation. It is assumed that any new authority may result in a merger of other HRA's, resulting in significant efficiencies.

Year	Revenue Saving Target %	Notes
2025/26	0	Transitional year
2026/27	2.5%	Minimum reduction
2027/28	2.5%	Minimum Reduction
2028/29	2.5%	Minimum Reduction – Possible year 1 of new authority
2029/30	2.5%	Minimum Reduction – Possible year 2 of new authority
2030/31	5%	Minimum Reduction – Possible year 3 of a new authority
Total	15%	

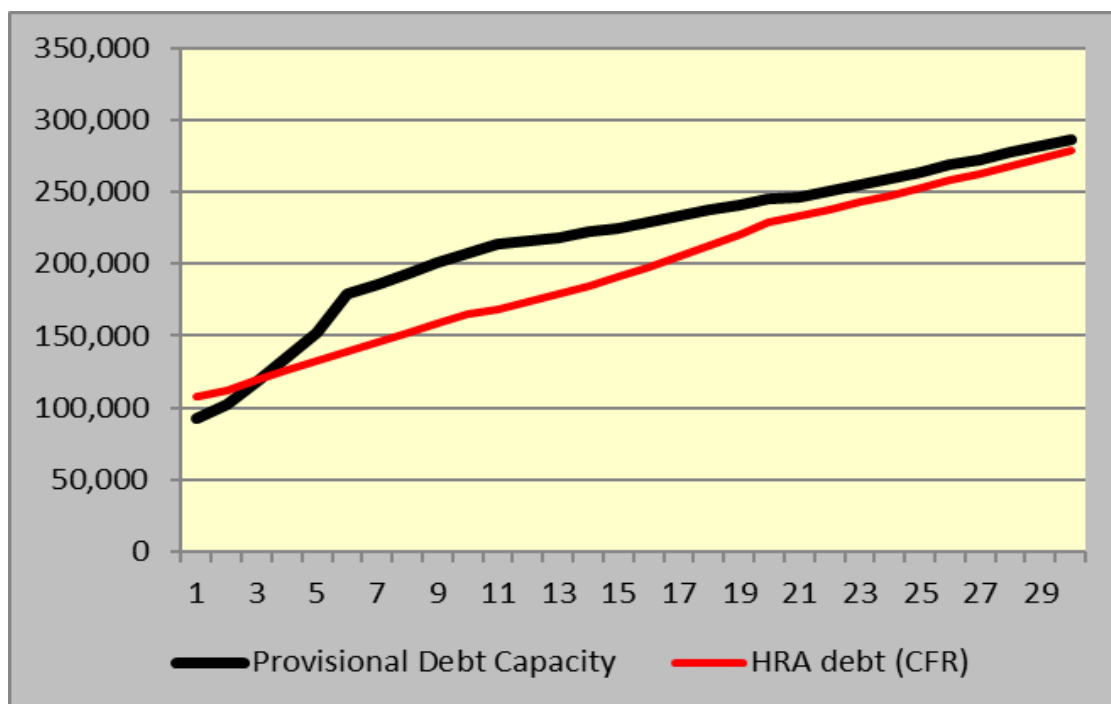
15. The proposed reductions will be split across both Management & Supervision (*M&S – Total current budget £10.25m*) and Repairs & Maintenance (*R&M - Total Current Budget £7.14m*) i.e. the main constituent elements of revenue expenditure. In financial terms the reductions would approximately be as follows.

Budget	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Total Reductions	£434,492	£434,491	£434,492	£434,491	£868,963	£2,607,000

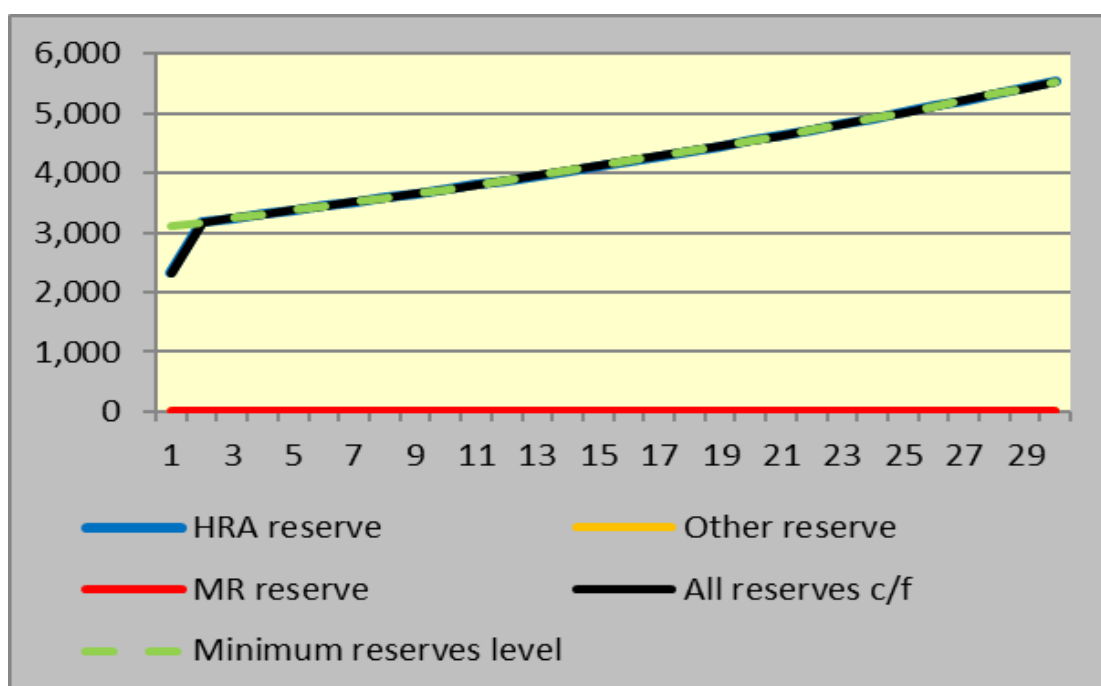
16. If LGR does not proceed as anticipated, the Efficiency Plan will need further review and alternative arrangements developed to ensure the overall 15 % reduction in revenue expenditure is achieved.
17. The balance of reductions between S&M and R&M may change over the life of the Efficiency Plan i.e. greater efficiencies achieved in one would reduce the requirement in the other. Overall however, the target revenue reduction would remain at 15%.

Business Plan – A Sustainable Position

18. Assuming the above efficiencies and reductions are delivered, modelling suggest a sustainable position is achievable within the overall plan period. Debt transitions to within capacity early in the plan period with marginal headroom for a small level of additional borrowing.



Graph 4 above – Debt projection/capacity (2025 – 2055)



Graph 3 above – Revenue Projection (2025 – 2055)

Efficiency Plan – Implications

19. As highlighted, a long-term sustainable position requires a 15% reduction in revenue expenditure. The delivery of these efficiencies and budget reductions are currently being established through an HRA Efficiency Plan. An ongoing internal review has identified a number of opportunities for improved efficiency and cost reductions. This plan will be critical in achieving the required targets and will be kept under constant review.

20. It should be highlighted that it is considered inappropriate to seek redundancies prior to LGR.
21. Any saving or efficiencies will be based upon the principle of finding alternative approaches to service delivery to ensure the quality of tenant services are maintained or improved. This may include the introduction of new technologies, AI integration and working practices that increase efficiency whilst reducing resources / expenditure. Work to date has established significant opportunities in this respect.
22. Other elements of the Efficiency Plan include income maximisation and effective asset management to boost income and tackle poor asset performance.
23. A failure to deliver the required savings will place the long-term sustainability of the HRA at risk. There are limited options for an HRA facing financial issues. In this scenario the following may need to be considered.
 - **Rent flexibility**
Seeking regulatory/government approval to increase rents above CPI + 1
 - **Asset disposals**
Disposing of an increased number of assets to reduce debt
 - **Reduced investment**
Reducing investment in the stock to a minimum only standard
 - **Government financial support**
Not currently available but potentially available in the future
 - **Alternative Management model.**
Outsourcing management to achieve efficiencies

Development & Regeneration Aspirations

24. Maintaining stock levels and responding to the needs of our communities and regenerating our estates are key consideration and a priority for the future of the HRA. The Business Plan model incorporates an ability to include our development and estate regeneration aspirations. Modelling suggests that development activity makes a positive contribution to the revenue position, assuming a certain level of Homes England grant and other sources of capital funding.
25. Our development and regeneration aspirations are set out in a separate report but in summary, have the potential to deliver up to 500 new homes. These ambitions are outlined in the Housing Investment and Delivery Plan (The Build & Buy Plan).

Asset Management

26. Effective Asset Management is critical in achieving long term sustainability for the HRA. The Asset Management Plan, which is under development, will provide a clear strategy to target poor asset performance allowing investment to be targeted effectively. Poor performing assets, which are detrimental to the overall financial health and sustainability of the HRA, will be tackled and potentially disposed of. The Asset Management Plan will be presented to HRB in due course. In the meantime, the principles of effective asset management are embedded in our current approach.

Risk Management & Monitoring

27. It is important to highlight that the Business Plan modelling is a snapshot of our current position and forecast over the long term. Within these forecasts are numerous assumptions around income and costs etc. These include rent increases, inflation, interest rates, RTB sales and many other assumptions. Whilst the forecast and assumptions are based on the best available data and advice, these assumptions may change. This presents an inherent and unavoidable risk. For example, if any of the assumptions change, either positively or negatively, these could have a significant impact on the long-term plan. For that reason, the Business Plan will be kept under constant review, with key assumptions updated to reflect any changes and risk monitored and reported..

Tenant Engagement

28. The interest of our tenants is at the heart of our approach. Our long-term plans for investment in the stock and the provision high quality homes and excellent customer service is highly important. As such we are committed to engaging and communication our plans. We will present our stock investment and longer-term strategic plans to members of our Tenant Scrutiny Panel during the coming summer.

Next Steps.

29. A formal Business Plan will be published later in the current financial year with formal adoption to align with the 2026/27 budget. The plan will set the financial framework for budget setting and capital investment over the medium term.
30. The Asset Management Strategy will be completed and presented to prior to the commencement of the 2026/27 financial year.
31. The Build and Buy Plan, A 5 Year Investment and Development Strategy is presented in a separate report. The financing of the plan will be subject to formal Council approval of the HRA Business Plan.

Financial implications:

The above report lays out the financial position. The affordability of stock investment and the financial sustainability of the Housing Revenue Account (HRA) relies on the delivery of annual cumulative savings of £434k each year for the next 4 years and then the sum increases based on efficiencies that should be obtained through LGR. This will need to be carefully monitored, along with the costs and income projections in the model to ensure the viability of the HRA.

Legal implications:

This is an important report that appraises members of the financial position as far as the Housing Revenue account is concerned.

Housing Revenue Account (HRA) Business Plan –Q&A

1. Financial Sustainability and Pressures

Q: What are the main financial pressures currently facing the HRA?

A: The HRA is under significant pressure due to historical underinvestment, increased regulatory

standards, inflation, limited rent increases, net zero expectations, disrepair claims, void costs, and more. These are not unique to East Devon but are being felt nationally across housing authorities.

Q: Why was additional borrowing required in 2023/24?

A: Due to budget overspend, the council needed to use all earmarked HRA reserves and borrow an additional £2.5 million. The HRA balance reserve was also reduced to £1.76 million from a recommended £3.1 million.

Q: Is the current HRA Business Plan financially sustainable?

A: No. The base model indicates the current plan is highly unsustainable, with debt projected to exceed prudential borrowing limits within 10 years if no action is taken.

2. Efficiency Plan and Budget Reductions

Q: What is the proposed solution to restore sustainability?

A: A 15% reduction in revenue expenditure (approx. £2.6m) is required. This will be phased over five years starting in 2026/27, with annual reductions of 2.5% for four years, and 5% in the fifth.

Q: Where will these savings come from?

A: Reductions will be split between Management & Supervision (M&S) and Repairs & Maintenance (R&M), with £1.54m targeted from M&S and £1.07m from R&M over the five-year period.

Q: How will this affect staffing?

A: No redundancies are planned before Local Government Reorganisation (LGR). However, staff reductions will occur through natural wastage and a recruitment freeze on non-essential roles.

Q: What if the 15% savings target is not achieved?

A: This would risk the HRA's long-term viability. Alternatives like rent flexibility, asset disposals, reduced investment, government support, or outsourcing may need to be considered.

3. Stock Investment and Development

Q: How much investment is needed for the current housing stock?

A: Approximately £281 million over 30 years (£67,439 per property) has been assumed for modelling purposes based on stock condition surveys and benchmarking by Savills.

Q: Will development and regeneration help the financial position?

A: Possibly. Development activity, assuming grant support, is projected to potentially improve the HRA's revenue position and help maintain housing stock levels.

Q: What are the development goals?

A: The Housing Investment and Delivery Plan aims to deliver up to 500 new homes. This supports both housing needs and financial resilience.

4. Stock Transfer (LSVT) Considerations

Q: Is a Large Scale Voluntary Stock Transfer (LSVT) being considered?

A: Savills conducted a theoretical appraisal, but the current stock valuation is negative £74 million, with an £87 million debt write-off needed. The resulting valuation of -£161 million makes LSVT financially unviable at this time.

5. Risk Management

Q: What are the key risks to the Business Plan?

A: Risks include assumptions about rent increases, inflation, interest rates, and RTB sales. Any changes in these could significantly affect the plan.

Q: How will risks be monitored?

A: The plan will be under continuous review. Adjustments to assumptions and financial modelling will be made as new data becomes available with risks monitored and reported..

6. Tenant Engagement and Service Quality

Q: How will tenant interests be safeguarded during cost-cutting?

A: All savings will be guided by the principle of maintaining or improving tenant service quality. This includes exploring new technologies, AI, and alternative delivery models.

Q: What engagement is planned with tenants?

A: The council will consult and communicate the investment and strategic plans with tenant panels during the summer and continue engagement through established channels.

7. Next Steps

Q: When will the full updated Business Plan be adopted?

A: The formal HRA Business Plan will be published and adopted, subject to Council approval, to align with the 2026/27 budget.

Q: What other strategic documents are forthcoming?

A: The Asset Management Strategy and the Build & Buy Plan (5-Year Investment Strategy) are key accompanying documents and will be submitted separately.