# Oadby & Wigston Borough Council

## HRA Business Plan Financial Projections

**October 2014 Review**

## 1. Introduction

1.1 CIH consultancy have been commissioned to bi-annually update the Council's HRA Business Plan and report on the latest projections arising and how the position has changed from the last review of the model.

1.2 This review, specifically for officers and members makes reference to any significant changes to the previous version of the business plan model (January 2014).

1.3 This review of this model incorporates the original budgets for this financial year, which have not changed since the last review. The plan starts from 2014/15 and opening balances for 2014/15 for the HRA, Major Repairs Reserve and the Investment Reserve. The changes are noted below:

| | Jan 2014 HRA BP Projected Balances | Actual Opening Balances | Variance | Notes |
|---|---|---|---|---|
| HRA | £0.940m | £1.898m | £0.958m | 1 |
| MRR | £0.749m | £1.012m | £0.263m | 2 |
| Investment Reserve | £0.5m | £0.5m | - | |

1.4 Note 1: The variance is largely due to the HRA not requiring to make revenue contributions to capital expenditure and lower than budged repair costs.

1.5 Note 2: The final accounts for capital expenditure was lower than forecast resulting in the reduced utilisation of the Major Repairs Reserve having a beneficial effect on the Major Reserves Balance.

## 2. Future Assumptions

2.1 The model currently uses the original budgets for 2014/15 for forecasting expenditure and income forward whilst adding general RPI (inflation) increases. There are exceptions to these and detailed further in this report.

2.2 In this section of the report we briefly detail how the above expenditure and income will differ from any other variance than RPI (inflation being applied). We have applied an RPI of 2.5% throughout the plan.

Rental Income

2.3 As part of the business planning process we have accurately forecast forward each individual property's rent to estimate future increases and assess the impact of the £2 cap above RPI plus 0.5% in the past. However the recently produced social rent policy from April 2015 now replaces RPI with CPI and the real increase of 0.5% is replaced by 1%. Furthermore the final guidance confirmed the withdrawal of rent convergence, therefore suggesting that the rent levels set in April 2014 will form the basis for future inflationary increases of CPI plus 1%.

2.4 Given the closeness to the publication of the September CPI figures we have used both the August CPI of 1.5% and RPI of 2.4% in our modelling for 2015/16.

2.5 Using an estimate of turnover of stock, an assumed 3% (on a reducing balance) will move from actual to formula rent levels.

2.6 Void levels are estimated to remain at 2% throughout the plan as a prudent assumption.

Welfare Reform

2.7 The total impact of welfare reform to the plan and how to profile it into future projections will be progressed with officers but for the time being we have kept the provisions for bad debts as before, which will peak at 2.5% and then reduce to 2%.

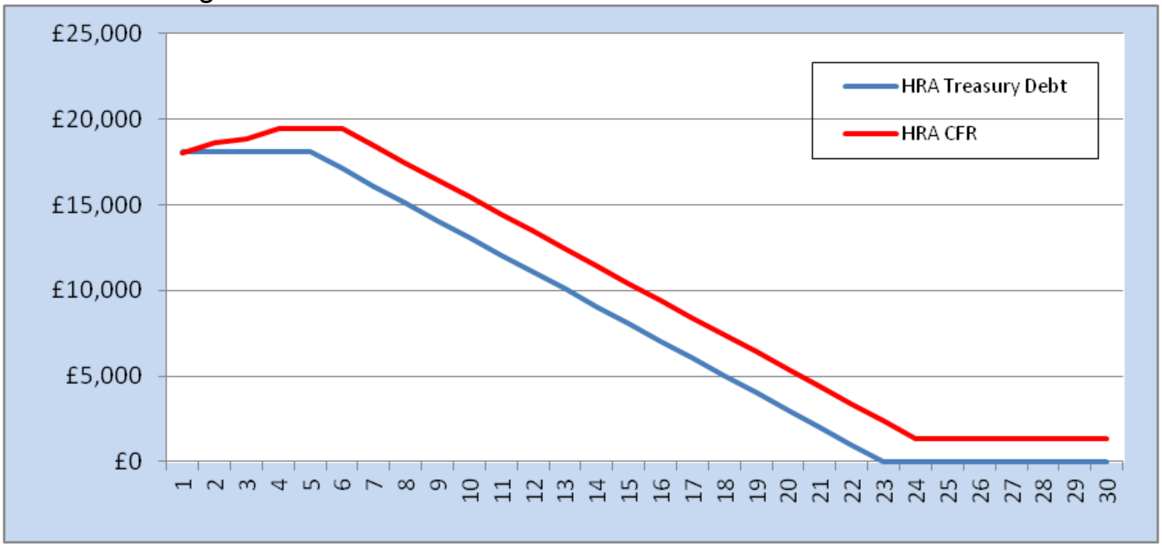
Treasury Management

2.8 The loan portfolio remains unchanged and consists of 18 individual loans of £1.006million of which one will be repaid each year from 2019/20 (year 6 of the plan) to 2036/37 (year 23).

2.9 The interest on these loans (which vary from 1.99% to 3.44% depending on duration) will be charged directly to the HRA, and being fixed rates the forecast interest projections will be accurate.

2.10 The graph below shows the financing position of the HRA:

*HRA Financing Position £'000*




2.11 The graph shows the actual HRA loan portfolio (identified by the bottom blue line) starting at £18.114million and reducing as per the schedule in 2.7 to complete repayment by year 23.

2.12 The actual accounting debt of the HRA (HRA CFR) is higher due to the Council's overall financing position on account of the additional borrowing required to fund capital works in years 1 and 3 of the plan. The last iteration suggested a borrowing requirement of £0.985million. This has increased slightly to £1.472million on account of amendments to capital expenditure and acquisition as per below.

2.13 No actual loans have been attributed to this additional borrowing of £1.472million and this is therefore treated within the model as 'internal borrowing'. This borrowing is at a rate of 4% (increasing gradually to 5%) and could be repaid at any time into the future using available HRA balances.

## 3. Capital Projections

3.1 The capital expenditure for 2014/15 has been amended to take account of slippage from 2013/14 which amount to £0.925million. This is funded from the higher balances carried for the HRA as identified in section 1.3.

3.2 Expenditure for Boulter Crescent is higher in 2015/16 than previously modelled and adjustments to the capital programme have seen an overall increase of £0.489million to the forecast expenditure.

3.3 From Year 3 (2016/17) and onwards the capital expenditure remains as before based on the stock condition survey of 2011. This equates to (excluding Boulter Crescent and disabled adaptations) £31.353 per unit, which is very much in line with benchmarks for the stock.

3.4 The next iteration of the plan will include the results of the latest update to the stock condition survey, which was not available at the time of this review.

New Build

3.5 There is currently no expenditure for new build included within this plan but the reader will note that sections 3.9 and 6.2 refer further to this.

Right to Buy Receipts

3.6 With the reinvigoration of the right to buy policy Oadby and Wigston has seen sales in 2012/13 and 2013/14 exceed those witnessed over the past three years (and those assumed within the self-financing settlement).

3.7 The result of the increased volume of sales affects the Plan not only with loss of income but also introduces the ability to retain the balance of the receipts (after some initial deductions).

3.8 After all eligible deductions the Council currently has £0.043million of net receipts termed as "1-4-1" for the direct contribution for new build as at 30 June 2014. With the forecast sales, this is estimated to increase to £0.107million in 2014/15. Regulations state that this can be used for up to 30% of new build within 36 months of the receipt arising. These receipts can be reclaimed by DCLG if they are not utilised within 36 months with compounded interest.

3.9 Therefore a potential £0.358million has to be spent to deliver affordable housing between September 2016 and March 2018.

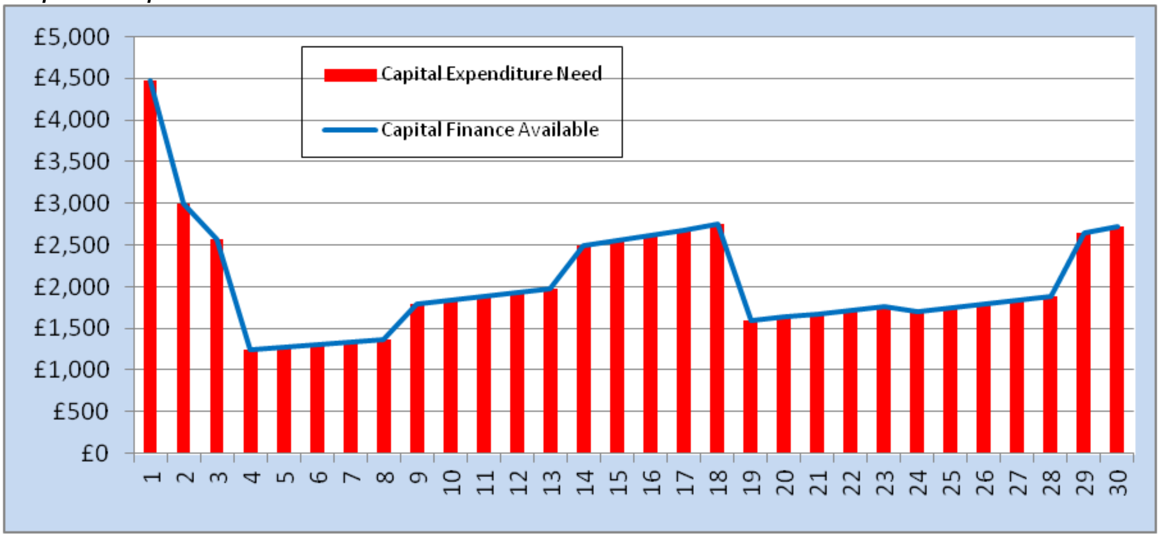
3.10 This plan includes the planned acquisition of a bungalow within this financial year of £250,000. Approval for this was granted at Policy, Finance and Development Committee on 22 July 2014. Current regulations allow the use of the "1-4-1" reserve to fund up to 30% of the purchase cost of acquisitions. We have therefore assumed that £0.075million of the potential £0.107million balances have been utilised for this purpose.

3.11 This reduces the potential balance to £0.032million for the "1-4-1" reserve, requiring an additional £0.076million to fund expenditure of £0.108million on additional affordable housing (which is excluded from this plan). Section 6 identifies the capacity within the plan to do so.

## 4. Funding the Capital Projections

4.1 The graph below demonstrates the capital expenditure (in the thick red vertical bars) for each year including inflation. The available resources are shown (using the thin blue horizontal line). As expected the expenditure identified in section 3 can be fully funded.

*Capital Expenditure vs Resources £'000*



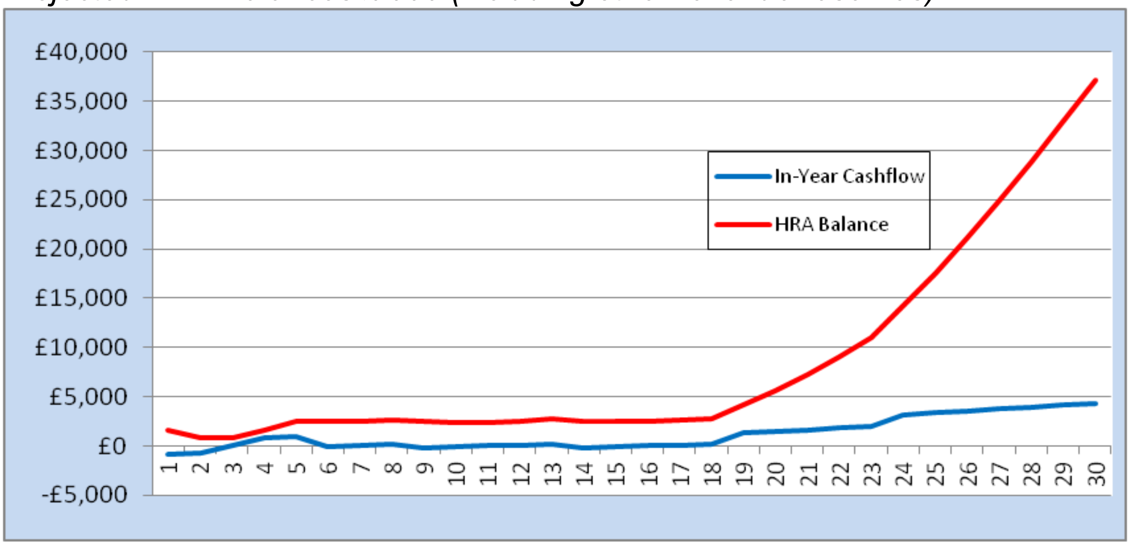

4.2 The key financial resources available for funding the capital expenditure have remained unchanged with the exception of borrowing which has increased by £0.490million to £1.475million.

4.3 The right to buy sales will be closely monitored including those applications within the pipeline to continually update the potential receipts.

## 5. HRA Revenue Balance Projections

5.1 The projected balances for the HRA are as follows:

*Projected HRA Balances £'000 (including other revenue reserves)*




CIH Consultancy
Octavia House,
Westwood Way,
Coventry, CV4 8JP

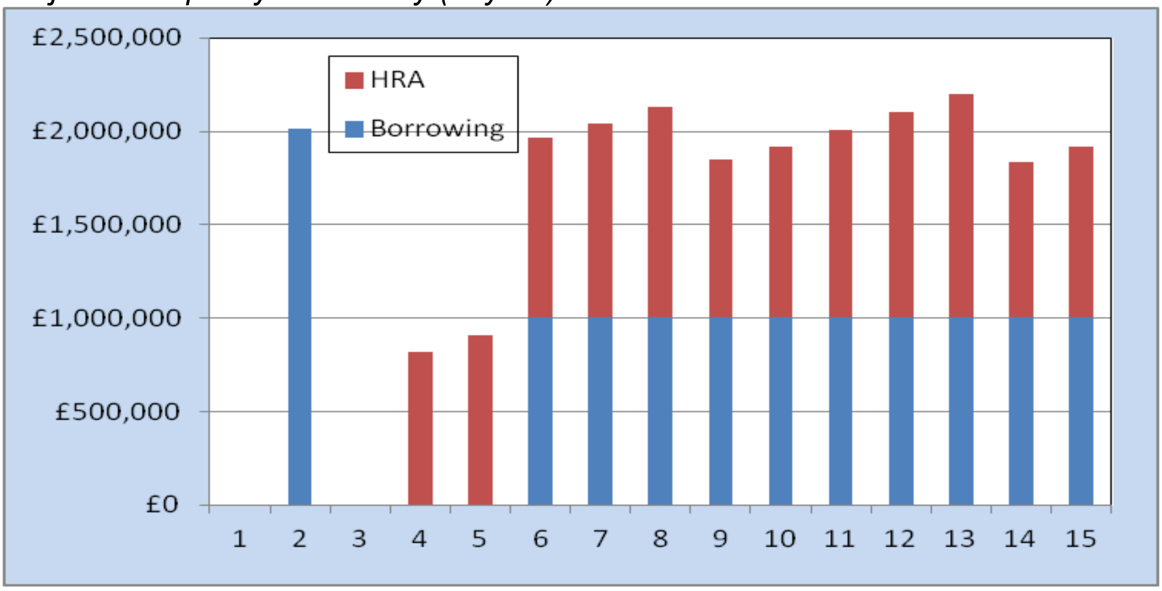
www.consultcih.co.uk
EMail headoffice@consultcih.co.uk
Telephone 0844 561 178
Registered in England and Wales: 01754648

5.2 The HRA is forecast to keep an average balance of £1.7million (excluding other reserves) over the first 18 years with its lowest point of £0.3million in years 2 & 3 (plus other HRA reserves of £0.5million).

## 6. Capacity

6.1 In future years, the capacity of the plan for additional expenditure increases. This is shown in the graph below for both the HRA and borrowing headroom over the next 15 years.

*Projected Capacity Availability (in-year)*




6.2 The above available resources may well be restricted in terms of the key risks that the HRA faces in terms of the impact of Welfare reform and other factors. However it demonstrates that there is sufficient capacity to fund the potential £0.108million required expenditure of new build (which would be netted down to £0.076million after the application of receipts).

## 7. Summary

7.1 This review of the HRA Business Plan demonstrates that it remains viable over the 30 years with the ability to repay the loan portfolio upon maturity for each of the facilities.

7.2 The additional borrowing could be repaid as early as year 5 if required.

7.3 The projections show that a balance of up to £1.7million could be accumulated in addition to the other HRA reserve balances.

7.4 With the range of sensitivities modelled the HRA still remains fully viable.

Simon Smith

CIH Consultancy
Octavia House,
Westwood Way,
Coventry, CV4 8JP

www.consultcih.co.uk
EMail headoffice@consultcih.co.uk
Telephone 0844 561 178
Registered in England and Wales: 01754648

**Appendix 1**

October 2014

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**Appendix 1**

**Key Assumptions**

1. General Inflation (RPI) 2.5% throughout (CPI) 2.0% from April 2016, CPI 1.5% and RPI 2.4% for April 2015
2. Rents increasing by CPI plus 1%
3. Assumed 3% of tenancies (on a reducing balance) moving to formula rent
4. Void levels 2% throughout
5. Bad Debts Provision increased from 1% to 2.5% in year 3 then 2%
6. Right to Buy levels reduce from 10 to 2 per year
7. Un-pooled Right to Buy Receipts utilised by General Fund
8. Acquisition of a property at £250,000
9. No New Build – but potential £0.107million required to be spent by March 2018
10. Service Charge income increasing by RPI only
11. Non Dwelling Rents (Garages and Shops) increasing by RPI only
12. Management Costs increasing by RPI only
13. Repair Costs increasing by RPI only
14. Capital Improvement Costs increasing by RPI

# Appendix 2

**HOUSING REVENUE ACCOUNT PROJECTIONS**

**Oadby and Wigston BC**

| Year | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024-28 | 2028-33 | 2033-38 | 2038-43 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11-15 | 16-20 | 21-25 | 26-30 |
| **INCOME:** | | | | | | | | | | | | | | |
| Rental Income | 4,977 | 5,078 | 5,228 | 5,382 | 5,541 | 5,703 | 5,871 | 6,043 | 6,220 | 6,402 | 34,925 | 40,310 | 46,496 | 53,604 |
| Void Losses | -99 | -102 | -105 | -108 | -111 | -114 | -117 | -121 | -124 | -128 | -699 | -806 | -930 | -1,072 |
| Service Charges | 104 | 106 | 109 | 111 | 114 | 117 | 120 | 123 | 126 | 129 | 697 | 788 | 892 | 1,009 |
| Non-Dwelling Income | 82 | 84 | 87 | 89 | 91 | 93 | 96 | 98 | 100 | 103 | 554 | 627 | 710 | 803 |
| Grants & Other Income | 93 | 95 | 98 | 100 | 103 | 105 | 108 | 111 | 113 | 116 | 626 | 709 | 802 | 907 |
| **Total Income** | **5,157** | **5,263** | **5,417** | **5,575** | **5,738** | **5,905** | **6,077** | **6,254** | **6,436** | **6,623** | **36,104** | **41,628** | **47,970** | **55,251** |
| **EXPENDITURE:** | | | | | | | | | | | | | | |
| General Management | -824 | -844 | -865 | -887 | -909 | -932 | -955 | -979 | -1,003 | -1,028 | -5,540 | -6,268 | -7,092 | -8,024 |
| Special Management | -482 | -494 | -506 | -519 | -532 | -545 | -558 | -572 | -587 | -601 | -3,240 | -3,666 | -4,147 | -4,692 |
| Other Management | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -13 | -15 | -17 | -19 |
| Rent Rebates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bad Debt Provision | -50 | -89 | -131 | -121 | -111 | -114 | -117 | -121 | -124 | -128 | -699 | -806 | -930 | -1,072 |
| Responsive & Cyclical Repairs | -1,292 | -1,323 | -1,356 | -1,390 | -1,424 | -1,460 | -1,496 | -1,534 | -1,572 | -1,611 | -8,682 | -9,823 | -11,114 | -12,574 |
| **Total Revenue Expenditure** | **-2,650** | **-2,751** | **-2,859** | **-2,918** | **-2,978** | **-3,053** | **-3,129** | **-3,208** | **-3,289** | **-3,372** | **-18,174** | **-20,578** | **-23,300** | **-26,382** |
| Interest Paid | -539 | -561 | -576 | -594 | -594 | -604 | -587 | -565 | -541 | -515 | -2,146 | -1,358 | -547 | -341 |
| Finance Administration | -16 | -16 | -17 | -17 | -18 | -18 | -19 | -19 | -19 | -20 | -108 | -122 | -138 | -156 |
| Interest Received | 15 | 12 | 12 | 19 | 35 | 42 | 42 | 44 | 44 | 42 | 213 | 276 | 983 | 2,476 |
| Depreciation | -1,157 | -1,185 | -1,214 | -1,245 | -1,276 | -1,308 | -1,340 | -1,374 | -1,408 | -1,444 | -7,777 | -8,799 | -9,956 | -11,264 |
| **Net Operating Income** | **810** | **761** | **762** | **821** | **908** | **965** | **1,044** | **1,132** | **1,222** | **1,314** | **8,113** | **11,047** | **15,012** | **19,585** |
| **APPROPRIATIONS:** | | | | | | | | | | | | | | |
| FRS 17 /Other HRA Reserve Adj | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Provision (HRACFR) | 0 | 0 | 0 | 0 | 0 | -1,006 | -1,006 | -1,006 | -1,006 | -1,006 | -5,032 | -5,032 | -3,019 | 0 |
| Revenue Contribution to Capital | -1,636 | -1,534 | -756 | 0 | 0 | 0 | 0 | 0 | -367 | -391 | -3,039 | -2,885 | 0 | 0 |
| **Total Appropriations** | **-1,636** | **-1,534** | **-756** | **0** | **0** | **-1,006** | **-1,006** | **-1,006** | **-1,374** | **-1,397** | **-8,071** | **-7,916** | **-3,019** | **0** |
| **ANNUAL CASHFLOW** | **-826** | **-773** | **7** | **821** | **908** | **-41** | **38** | **125** | **-152** | **-83** | **42** | **3,131** | **11,993** | **19,585** |
| Opening Balance | 1,898 | 1,072 | 299 | 305 | 1,126 | 2,034 | 1,993 | 2,031 | 2,156 | 2,004 | 1,921 | 1,963 | 5,094 | 17,087 |
| **Closing Balance** | **1,072** | **299** | **305** | **1,126** | **2,034** | **1,993** | **2,031** | **2,156** | **2,004** | **1,921** | **1,963** | **5,094** | **17,087** | **36,672** |

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# Appendix 1

**HOUSING CAPITAL PROJECTIONS**
**Oadby and Wigston BC**

| Year<br>£'000 | 2014/15<br>1 | 2015/16<br>2 | 2016/17<br>3 | 2017/18<br>4 | 2018/19<br>5 | 2019/20<br>6 | 2020/21<br>7 | 2021/22<br>8 | 2022/23<br>9 | 2023/24<br>10 | 2024-28<br>11-15 | 2028-33<br>16-20 | 2033-38<br>21-25 | 2038-43<br>26-30 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EXPENDITURE:** | | | | | | | | | | | | | | |
| Planned Variable Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Planned Fixed Expenditure | -4,046 | -2,996 | -2,569 | -1,242 | -1,273 | -1,305 | -1,338 | -1,371 | -1,789 | -1,834 | -10,817 | -11,261 | -8,605 | -10,882 |
| Disabled Adaptations | -120 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Capital Expenditure | -60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New Build Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Procurement Fees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Previous Year's B/F Shortfall | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Capital Expenditure** | **-4,226** | **-2,996** | **-2,569** | **-1,242** | **-1,273** | **-1,305** | **-1,338** | **-1,371** | **-1,789** | **-1,834** | **-10,817** | **-11,261** | **-8,605** | **-10,882** |
| **FUNDING:** | | | | | | | | | | | | | | |
| Major Repairs Reserve | 2,169 | 1,185 | 1,214 | 1,242 | 1,273 | 1,305 | 1,338 | 1,371 | 1,422 | 1,444 | 7,777 | 8,376 | 8,605 | 10,882 |
| Right to Buy Receipts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HRA CFR Borrowing | 596 | 277 | 599 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Receipts/Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HRA Reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Contributions | 1,636 | 1,534 | 756 | 0 | 0 | 0 | 0 | 0 | 367 | 391 | 3,039 | 2,885 | 0 | 0 |
| **Total Capital Funding** | **4,401** | **2,996** | **2,569** | **1,242** | **1,273** | **1,305** | **1,338** | **1,371** | **1,789** | **1,834** | **10,817** | **11,261** | **8,605** | **10,882** |
| | | | | | | | | | | | | | | |
| **In-Year Net Cashflow** | **175** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| | | | | | | | | | | | | | | |
| **Cumulative Position** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| | | | | | | | | | | | | | | |
| **MRR Account:** | | | | | | | | | | | | | | |
| **Opening Balance** | 1,012 | 0 | 0 | 0 | 3 | 5 | 8 | 11 | 14 | 0 | 0 | 0 | 423 | 1,774 |
| **Net Contribution (Depr)** | 1,157 | 1,185 | 1,214 | 1,245 | 1,276 | 1,308 | 1,340 | 1,374 | 1,408 | 1,444 | 7,777 | 8,799 | 9,956 | 11,264 |
| **Use of Reserve to Capital** | -2,169 | -1,185 | -1,214 | -1,242 | -1,273 | -1,305 | -1,338 | -1,371 | -1,422 | -1,444 | -7,777 | -8,376 | -8,605 | -10,882 |
| **Loan Repayment** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Closing Balance** | **£0** | **£0** | **£0** | **£3** | **£5** | **£8** | **£11** | **£14** | **£0** | **£0** | **£0** | **£423** | **£1,774** | **£2,156** |