



Oadby & Wigston Borough Council

HRA Business Plan Financial Projections

January 2015 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 (October 2014).
- 1.3 This review of this model incorporates the revised budgets for this financial year and also the proposed budgets for 2015/16. The plan starts from 2014/15 and opening balances 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 | £1.897m | £0.957m | 1 |
| MRR | £0.749m | £1.012m | £0.263m | 2 |
| Regeneration Reserve | £0.500m | £0.500m | - | |

- 1.4 Note 1: The variance is largely due to the HRA not requiring to make revenue contributions to capital expenditure and lower than budgeted 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.
- 1.6 The original budgets for 2014/15 projected an in-year deficit of £109,000. This has subsequently been revised to £250,930 with the majority of the variance due to an increase in costs for estate management.
- 1.7 The proposed budgets, based on a rent increase of 2.26%, result in a deficit position of £1.347million, ensuring that a minimum balance of £0.3million is maintained within the HRA.

2. Future Assumptions

- 2.1 The model currently uses the proposed budgets for 2015/16 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

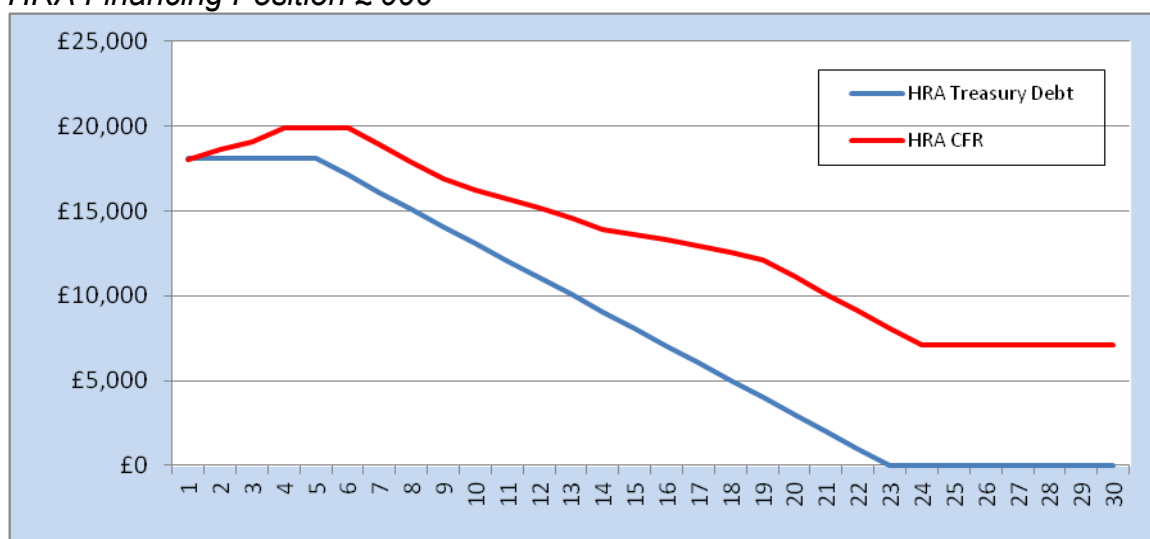
- 2.3 As part of the business planning process we have accurately forecast forward each individual property's rent to estimate future increases and assess the impact of the £2 cap above RPI plus 0.5% in the past. However the recently produced social rent policy from April 2015 now replaces RPI with CPI 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 Following this policy has resulted in an average rent increase of 2.26% for April 2015. We have assumed a 2% rent increase for April 2016 on the assumption of a lower CPI of 1% (for September 2015) and then 3% thereafter, assuming a CPI of 2%.
- 2.5 Void levels are estimated to remain at 2% throughout the plan as a prudent assumption.

Welfare Reform

- 2.6 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

- 2.7 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).
- 2.8 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. For 2015/16, in the interests of corporate efficiency, the Council is moving to a combined loans pool for both HRA and General Fund.
- 2.9 The graph below shows the financing position of the HRA:

HRA Financing Position £'000

- 2.10 The graph shows the actual HRA loan portfolio (identified by the bottom blue line) starting at £18.114million and reducing as described in 2.7 to complete repayment by year 23.
- 2.11 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 but also years 9 to 18 of the plan. The last iteration suggested a borrowing requirement of £1.427million. This has increased slightly to £1.903million to year 3 on account of amendments to capital expenditure and funding availability as described below. The additional borrowing in years 9 to 18 of £5.3million reflects the position that the HRA cannot fully repay the loans as they fall due, hence the refinancing of part of the loans.
- 2.12 No actual loans have been attributed to this additional borrowing of £1.903million in years 1 to 3 and £5.3million years 9 to 18 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. 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 £0.164million 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) c£33,700 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. However we have been supplied with the following commentary from officers;

- The programme continues to balance the need to maintain properties to the decent homes standard and other priorities such as health and safety, aids and adaptations, sustainability, energy efficiency and meeting tenants aspirations.
- Starting with decent homes we have committed/contracted the major refurbishment of properties on Boulter Crescent on the whole home approach and the works are on schedule / budget due to run to early 2016/17. This is a major refit literally stripping to the bare external walls. This is an exceptional scheme but we have also contracted properties at King Street on a similar whole home approach though not requiring full strip out. We have other schemes that will go out to tender over the coming weeks on a similar basis that conclude the original 10 year programme and any other immediate not DH compliant issues we have identified. We are also meeting demand to revisit past refusals at relet; when requested by the same tenant; and proactively.
- We have conducted 100% surveys on larger estates that have been brought fully up to standard or are contracted in current programmes e.g. Bennett Way (43), Boulter Crescent (137), Elizabeth Court (75), King Street (19), Queen Street (14) – A total of 288 homes recently or currently being brought to 'whole house' standard. There are another 121 homes currently surveyed /being surveyed where work will be delivered in 2015/16. This equates to 409 properties on a 100% survey basis (around a third of the stock) the remainder still being on a 10% survey basis.
- The remaining stock will be surveyed on a 100% basis and a full 30 year modelling and five year programme to be delivered from April 16 will be produced and agreed over the coming months. We continue to be confident we can meet and exceed decent homes standard within the business plan profiles.

3.5 Additional commentary;

- Remaining Open flue boilers are now down to single figures where the tenant has refused new boiler
- Central heating upgrades (new radiators instead of power flushes) are now being delivered with boiler replacements
- Newly identified issues such as defective DPC's are being addressed through responsive / planned budgets
- Adaptations – demand is being met and projects delivered within good practice guidelines

- Fire safety review inspections are currently on site
- Non traditional structures are being investigated / tested to determine lifespan / costs (around 100 units)
- Door entry systems – replacements are being looked at to incorporate costs into plans
- Free rooftop PV systems are currently under consideration (would be the second project OWBC has done)
- Still trying to tap into funding for external wall insulation for solid wall houses
- Commercial boilers offices and schemes (x3 sites) have all been overhauled for winter 2014/15 + assessed for future investment
- We continue to try to meet tenants aspirations consistent with choices exercised in other tenures (e.g. solar PV is now popular in all tenures but air and ground source heat pumps, biomass etc are less mainstream /in demand)

New Build

- 3.6 It is proposed that £0.3million be allocated for new build included within this plan for 2015/16. This is funded from fully utilising the available balances of the Regeneration Reserve of £0.5million.

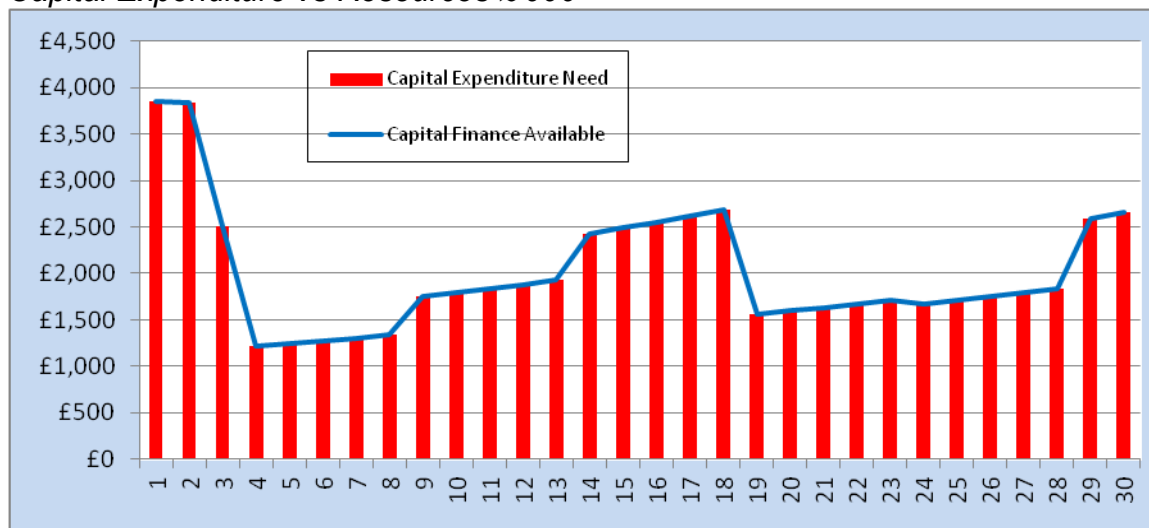
Right to Buy Receipts

- 3.7 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 is forecasted to have £0.065million in balances at the end of 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 £0.217million has to be spent to deliver affordable housing between September 2016 and March 2018. Section 6 identifies the capacity within the plan to do so. This is in addition to the £0.3million identified in section 3.10 above.

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



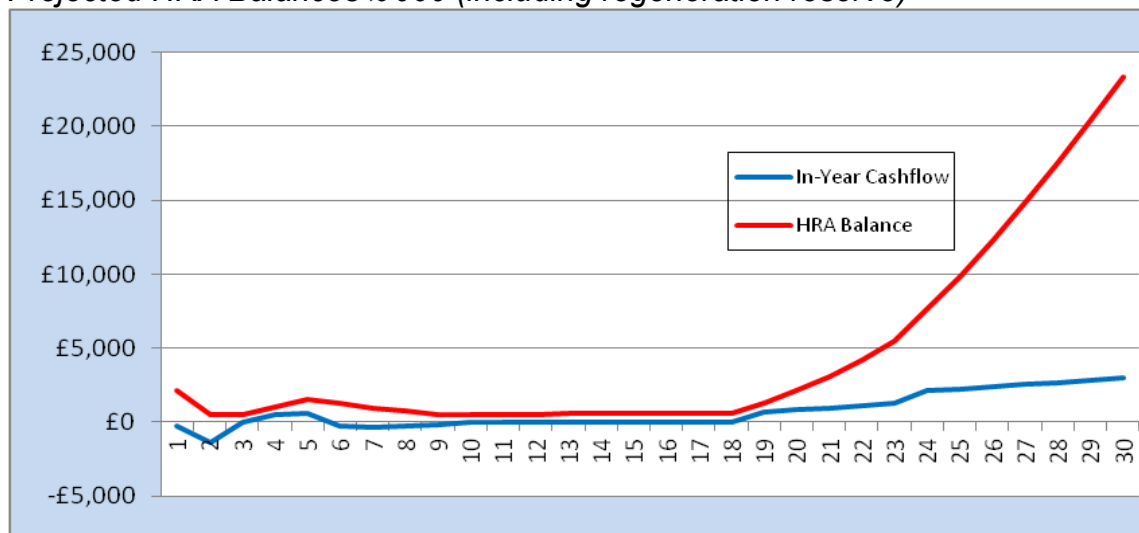
4.2 The key financial resources available for funding the capital expenditure have remained unchanged with the exception of borrowing which has increased by £0.428million to £1.903million.

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 regeneration reserve)

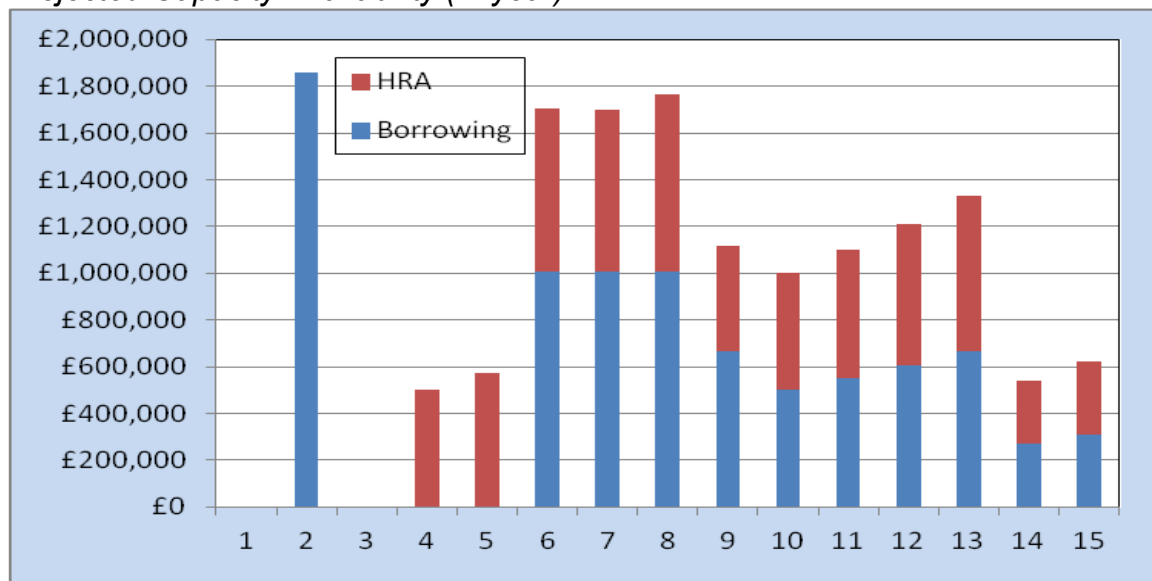


5.2 The HRA is forecast to keep an average balance of £0.52million (excluding other reserves) over the first 18 years with its lowest point of £0.3million in years 2 & 3 (plus the regeneration reserve of £0.2million after funding new build).

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 £0.217million required expenditure of new build (which would be netted down to £0.152million 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. However it does not have the ability to repay the loan portfolio in full upon maturity for each of the facilities as and when required. The projected loans outstanding at year 30 are £7.1million which could be repaid either using accumulated reserve balances or by refinancing the loans.
- 7.2 The projections show that a balance of up to £9.677million in year 25 could be accumulated in addition to the other HRA reserve balances.
- 7.3 With the range of sensitivities modelled the HRA still remains fully viable in terms of meeting its investment requirements though may not be fully debt free within a 30 year period, of which there is no statutory obligation.

Simon Smith

January 2015

Key Assumptions

1. General Inflation (RPI) 2.5% throughout (CPI) 1.0% 2016 and 2.0% from April 2017
2. Rents increasing by CPI plus 1%
3. Void levels 2% throughout
4. Bad Debts Provision increased from 1% to 2.5% in year 3 then 2%
5. Right to Buy levels reduce from 8 to 2 per year
6. Un-pooled Right to Buy Receipts utilised by General Fund (with exception of year 1)
7. New Build of £0.3million in 2015.16 funded by the regeneration reserve – but potential £0.217million required to be spent by March 2018
8. Service Charge income increasing by RPI only
9. Non Dwelling Rents (Garages and Shops) increasing by RPI only
10. Management Costs increasing by RPI only
11. Repair Costs increasing by RPI only
12. Capital Improvement Costs increasing by RPI

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 | 2023-28 | 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 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| INCOME: | | | | | | | | | | | | | | |
| Rental Income | 4,971 | 5,051 | 5,131 | 5,276 | 5,426 | 5,580 | 5,737 | 5,900 | 6,067 | 6,239 | 33,944 | 39,025 | 44,864 | 51,573 |
| Void Losses | (101) | (103) | (103) | (106) | (109) | (112) | (115) | (118) | (121) | (125) | (679) | (781) | (897) | (1,031) |
| Service Charges | 104 | 106 | 109 | 111 | 114 | 117 | 120 | 123 | 126 | 129 | 696 | 788 | 891 | 1,009 |
| Non-Dwelling Income | 82 | 84 | 86 | 88 | 90 | 93 | 95 | 97 | 100 | 102 | 551 | 623 | 705 | 798 |
| Grants & Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Income | 5,057 | 5,138 | 5,223 | 5,371 | 5,522 | 5,678 | 5,838 | 6,002 | 6,172 | 6,345 | 34,513 | 39,656 | 45,564 | 52,348 |
| EXPENDITURE: | | | | | | | | | | | | | | |
| General Management | (957) | (1,089) | (1,116) | (1,144) | (1,173) | (1,202) | (1,232) | (1,263) | (1,295) | (1,327) | (7,150) | (8,090) | -9,153 | -10,356 |
| Special Management | (373) | (332) | (340) | (348) | (357) | (366) | (375) | (385) | (394) | (404) | (2,177) | (2,463) | (2,787) | (3,153) |
| 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) | (128) | (119) | (109) | (112) | (115) | (118) | (121) | (125) | (679) | (781) | (897) | (1,031) |
| Responsive & Cyclical Repairs | (1,297) | (1,326) | (1,360) | (1,394) | (1,428) | (1,464) | (1,501) | (1,538) | (1,577) | (1,616) | (8,707) | (9,851) | (11,146) | (12,611) |
| Total Revenue Expenditure | (2,679) | (2,838) | (2,946) | (3,007) | (3,069) | (3,146) | (3,225) | (3,306) | (3,389) | (3,475) | (18,726) | -21,200 | -24,000 | -27,170 |
| Interest Paid | (539) | (589) | (586) | (611) | (611) | (624) | (609) | (587) | (567) | (560) | (2,721) | (2,636) | (1,980) | (1,774) |
| Finance Administration | (16) | (16) | (16) | (17) | (17) | (18) | (18) | (19) | (19) | (19) | (105) | (119) | (134) | (152) |
| Interest Received | 15 | 15 | 7 | 12 | 23 | 25 | 19 | 14 | 11 | 9 | 47 | 75 | 458 | 1,501 |
| Depreciation | (1,157) | (1,185) | (1,215) | (1,245) | (1,276) | (1,308) | (1,341) | (1,374) | (1,409) | (1,444) | (7,779) | (8,801) | (9,958) | (11,266) |
| Net Operating Income | 681 | 525 | 467 | 503 | 571 | 606 | 664 | 731 | 799 | 857 | 5,229 | 6,976 | 9,950 | 13,487 |
| 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Contribution to Capital | (931) | (1,872) | (460) | 0 | 0 | (908) | (972) | (971) | (1,003) | (849) | (5,185) | (5,406) | (2,222) | 0 |
| Total Appropriations | (931) | (1,872) | (460) | 0 | 0 | (908) | (972) | (971) | (1,003) | (849) | (5,185) | (5,406) | (2,222) | 0 |
| ANNUAL CASHFLOW | (251) | (1,347) | 8 | 503 | 571 | (302) | (308) | (240) | (205) | 8 | 44 | 1,570 | 7,729 | 13,487 |
| Opening Balance | 1,898 | 1,647 | 300 | 307 | 810 | 1,381 | 1,079 | 771 | 531 | 326 | 334 | 378 | 1,948 | 9,677 |
| Closing Balance | 1,647 | 300 | 307 | 810 | 1,381 | 1,079 | 771 | 531 | 326 | 334 | 378 | 1,948 | 9,677 | 23,165 |

HOUSING CAPITAL 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 | 2023-28 | 2028-33 | 2033-38 | 2038-43 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|----------------|-----------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11-15 | 16-20 | 21-25 | 26-30 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| EXPENDITURE: | | | | | | | | | | | | | | |
| Planned Variable Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Planned Fixed Expenditure | (3,659) | (3,422) | (2,509) | (1,213) | (1,243) | (1,274) | (1,306) | (1,339) | (1,748) | (1,791) | (10,563) | (10,997) | (8,404) | (10,627) |
| Disabled Adaptations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Capital Expenditure | (197) | (108) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New Build Expenditure | 0 | (300) | 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 | (3,856) | (3,830) | (2,509) | (1,213) | (1,243) | (1,274) | (1,306) | (1,339) | (1,748) | (1,791) | (10,563) | (10,997) | (8,404) | (10,627) |
| FUNDING: | | | | | | | | | | | | | | |
| Major Repairs Reserve | 2,169 | 1,185 | 1,215 | 1,213 | 1,243 | 366 | 334 | 368 | 402 | 437 | 2,747 | 3,769 | 6,182 | 10,627 |
| Right to Buy Receipts | 160 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HRA CFR Borrowing | 596 | 473 | 834 | 0 | 0 | 0 | 0 | 0 | 342 | 505 | 2,631 | 1,821 | 0 | 0 |
| Other Receipts/Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HRA Reserves | 0 | 300 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Contributions | 931 | 1,872 | 460 | 0 | 0 | 908 | 972 | 971 | 1,003 | 849 | 5,185 | 5,406 | 2,222 | 0 |
| Total Capital Funding | 3,856 | 3,830 | 2,509 | 1,213 | 1,243 | 1,274 | 1,306 | 1,339 | 1,748 | 1,791 | 10,563 | 10,997 | 8,404 | 10,627 |
| In-Year Net Cashflow | 0 | 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 | 32 | 65 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 756 |
| Net Contribution (Depr) | 1,157 | 1,185 | 1,215 | 1,245 | 1,276 | 1,308 | 1,341 | 1,374 | 1,409 | 1,444 | 7,779 | 8,801 | 9,958 | 11,266 |
| Use of Reserve to Capital | (2,169) | (1,185) | (1,215) | (1,213) | (1,243) | (366) | (334) | (368) | (402) | (437) | (2,747) | (3,769) | (6,182) | (10,627) |
| Loan Repayment | 0 | 0 | 0 | 0 | 0 | (1,006) | (1,006) | (1,006) | (1,006) | (1,006) | (5,032) | (5,032) | (3,019) | 0 |
| Closing Balance | £0 | £0 | £0 | £32 | £65 | £0 | £0 | £0 | £0 | £0 | £0 | £0 | £756 | £1,396 |