



Oadby and Wigston Borough Council

HRA Business Plan Financial Projections

October 2015 Review

1. Introduction

- 1.1 CIH consultancy have been commissioned to update the Council's HRA Business Plan and report on the latest projections and influential factors for both present and the future.
- 1.2 The model is launched from 2014.15 and is based actual results for this year and the first four years on the Council's most recently published medium term financial plan.
- 1.3 It also details the future risks to the viability of the Business Plan with respects to changes to social housing within the recently published Housing Bill.

2. Future Assumptions

- 2.1 The model currently uses the current budgets and medium term financial plan for 2015.16 to 2018.19 for projecting 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) and the medium term forecast. We have applied an RPI of 2.5% from year 6 of the plan.

Rental Income

- 2.3 Following the Summer Budget on 8 July 2015 it was announced to the social housing sector that all rents within social housing would have to be reduced by 1%, rather than the previous guidance of annual increases of CPI plus 1%. This was in order to save £4.28billion over a five year period for the associated Housing Benefit costs, which would have seen increases without this action. The rent reduction is to be applied over a four year period. So for example a tenant currently paying £100.00 per week will see

it reduced to £99.00 next April and then £98.01 the following year and so on until April 2020 when rents are proposed to increase by CPI plus 1% again

- 2.4 This will have a significant impact to the resources available to not only Oadby and Wigston but for the whole sector. For Local Authorities we have assessed the impact as £2.6billion in terms of lost revenue against forecasts (based on the Government's own forecasts for CPI). The local impact (based on actual and assumed CPI levels) is £1.56million over the next 4 years of the plan or £25.5million over the full duration.
- 2.5 To implement these changes the new Welfare Reform and Work Bill was published on 9 July 2015 which in effect set about enforcing these changes rather than going through the usual process of consultation.
- 2.6 It was originally interpreted that this would only apply to housing association rents but subsequent confirmation from DCLG has stated that this will apply to local authorities as well. The HCA will produce a revised rent standard which will be applied to both local authorities and housing providers with this body now having overall control. It is not known yet how the actual regulation will work but local authorities are advised to model on the basis of rent reductions.
- 2.7 The Bill is to cover all types of rent within the social sector with the exclusion of shared ownership. This means that all new build properties let at affordable levels will also have the reduction applied over the next four years.
- 2.8 Further reading of the Bill suggests that the current policy of re-letting voids at formula rent will prove fruitless as the point of which rent for reduction is set at levels prior to 8 July. This also negates the opportunity to have a second rent increase within a year in order to potentially offset the impact of this policy. However, this has been queried and the Bill may see some form of amendment.
- 2.9 There will be the opportunities for housing providers to claim a waiver from the policy, but we are told that this will be in very extreme circumstances and unfortunately we cannot assume (indeed, it is probably unlikely) that Oadby and Wigston will fall into the category.
- 2.10 The Local Authority sector has voiced the possibility of challenging the Government in terms of the re-opening the self-financing settlement, given the change in the rent policy. This is an option though one we consider potentially risky in terms of challenge given that other factors could be included which may negate the possibility of some debt repayment.

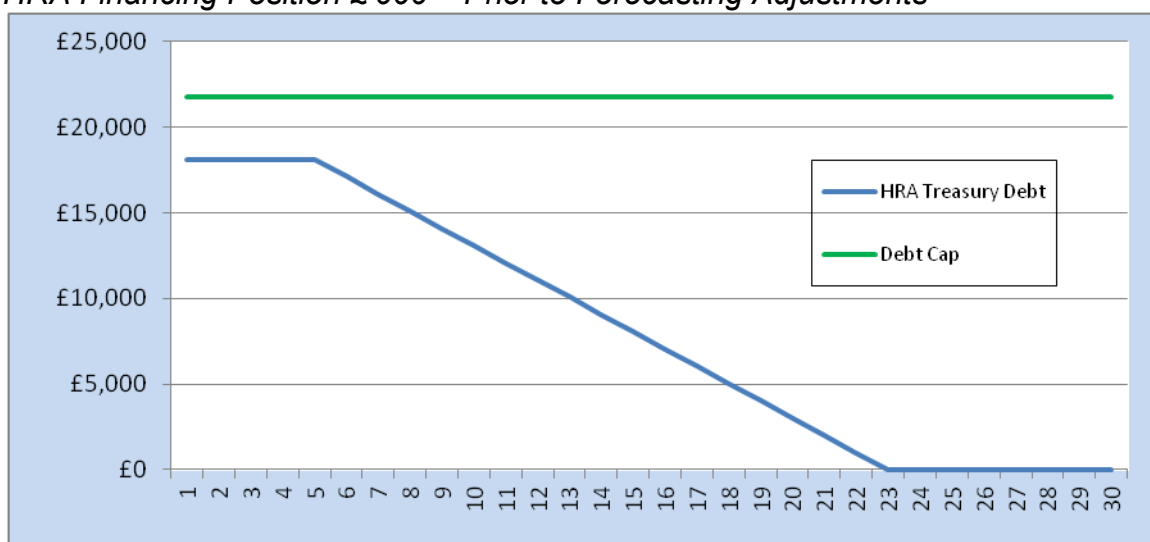
Welfare Reform

- 2.11 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 the provision peaks at 2.5% reducing to 1.5%.

Treasury Management

- 2.12 The loan portfolio that was established to finance the self-financing transactions consists of 18 loans totalling £18.114million. With an HRA CFR (accounting debt) of £18.006million there is 'internal' lending to the Council's General Fund of £0.108million.
- 2.13 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. We have estimated that any future borrowing in the medium to long-term will be charged at 5%.
- 2.14 The graph below shows the current financing position of the HRA before applying any future income and cost projections:

HRA Financing Position £'000 – Prior to Forecasting Adjustments



- 2.15 The graph shows the actual HRA loan portfolio starting at £18.114million and reducing gradually over 23 years until all loans are repaid. The HRA CFR (not shown in this graph) would indicate a very similar level of debt due to the 'internal' lending of £0.108million to the General Fund.

3. Capital Projections

- 3.1 The capital expenditure for 2015.16 reflects the budgeted spend for capital works and slippage for 2014.15.
- 3.2 From year 2 (2016.17) to year 4 (2017.18) we have used the levels of expenditure as per the medium term financial plan.
- 3.3 We have used the outputs from the 2011 stock condition survey to determine the required levels of future investment in stock. There is currently a revisit of survey ongoing and future updates of this plan will reflect the results of this.

- 3.4 In total the average expenditure costs per unit are in the region of £35,600 per unit which are marginally higher than benchmarked costs though this reflects the age and profile of the stock. This does however include for provision of disabled adaptations at £110,000 per annum.

New Build

- 3.5 The Council has yet to deliver new build schemes but plans for some have been included within the 2015.16 budget at £0.3million and we are aware that the Council is considering market acquisitions.
- 3.6 The plan provides for no other new build at this stage other but our summary section below details any future capacity to enable this.

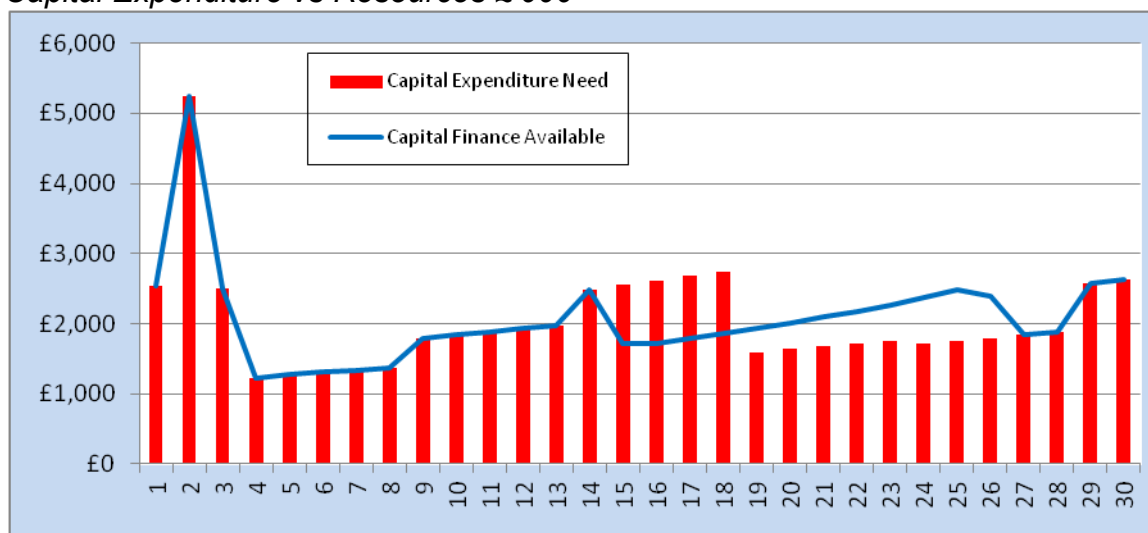
Right to Buy Receipts

- 3.7 With the reinvigoration of the right to buy policy Oadby and Wigston has seen sales in the past three years exceed those in the immediate prior years (and those assumed within the self-financing settlement).
- 3.8 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) known as '1-4-1' receipts.
- 3.9 After all eligible deductions the Council currently accrued £0.039million in total at the end of March 2015. Regulations state that this can be used for up to 30% of new build or acquisitions within 36 months of the receipt arising.
- 3.10 The plan assumes that these receipts will be utilised either through the planned new build expenditure or market acquisition.
- 3.11 Current rules state that if '1-4-1' receipts cannot be spent on eligible expenditure then they must be returned along with compounded interest at a charge of 4% above base rate.
- 3.12 We have assumed that right to buy levels will fall to a level that will result in no further right to buy receipts that will be attributable to the HRA.

4. Funding the Capital Projections

- 4.1 For the following projections we have amended the model to reflect the change in rent policy as per the medium term financial plan.
- 4.2 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).

Capital Expenditure vs Resources £'000



4.3 The results of the modelling show that the capital programme cannot be funded from year 15 (2028.29) until year 18 (2031.32). From year 19 as the forecast expenditure reduces the plan has sufficient resources to catch the shortfall of capital works, which peaks at £3.6million, by year 26. The resources available are based on using HRA balances until they reach the minimum balance set and borrowing up to the debt cap.

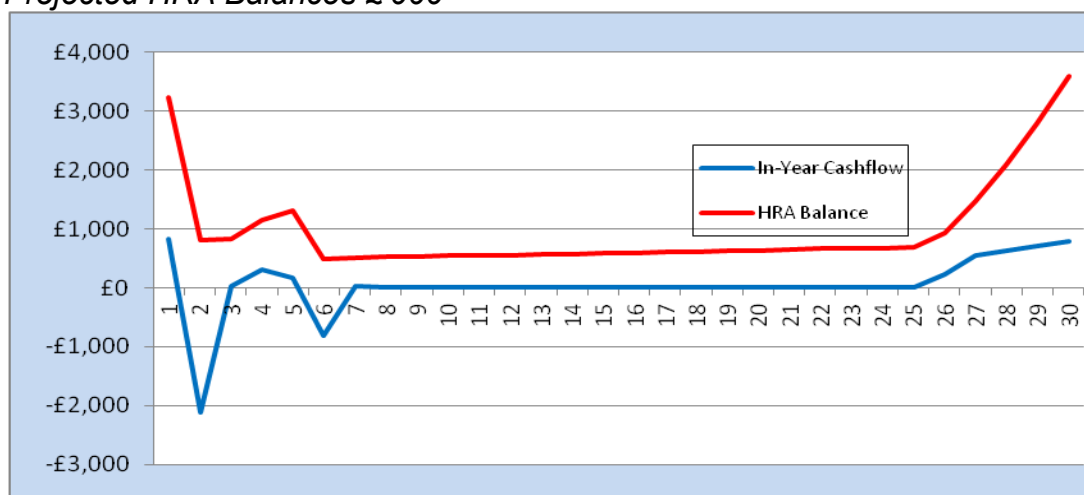
4.4 Whilst previous modelling demonstrated that there was never an issue in terms of funding the expenditure as it fell due, the change in circumstances of rents reducing rather than increasing means that resources will be more limited hence the shortfall in funding.

4.5 At this stage the above modelling excludes any provision for market acquisition of properties and if enacted would only increase the shortfall and the potential period to catch this up.

5. HRA Revenue Balance Projections

5.1 The projected balances for the HRA are as follows:

Projected HRA Balances £'000

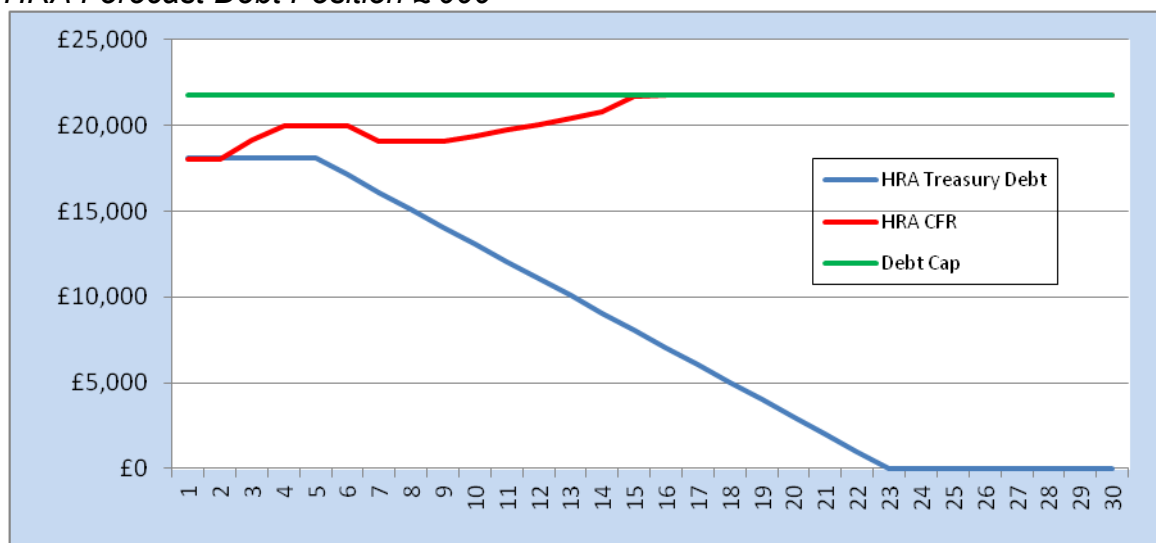


- 5.2 The HRA is set not to let balances to go below £0.3million (plus inflation) and is set to attempt loan repayments (via the major repairs reserve) where possible according to the treasury loan repayment strategy.
- 5.3 The level of balances are maintained at the minimum balance level (plus inflation) from years 6 to 25 until the shortfall in capital works are caught up. From then on balances start to accrue.

6. HRA Debt Projections

- 6.1 The chart below shows the revised borrowing position for the Council.

HRA Forecast Debt Position £'000



- 6.2 The above graph shows initially the £1.956million borrowing to fund the capital programme for 2015.16 and 2016.17.
- 6.3 From year 6 (2019.20) the HRA can no longer fully finance the current debt repayment as per the current portfolio. Due to the projected higher capital expenditure in years 9 onwards there is a need for a net increase in borrowing even after taking account of the in year loan repayment. This continues until year 15 when the debt cap is reached. This explains why the capital programme shortfalls occur from then on as no further additional borrowing can be made.
- 6.4 If the Council wished to see any debt repayment in future years then the level of investment to the existing stock would need to be reduced accordingly.
- 6.5 The level of debt is projected at £21.769million at year 30, though could be reduced by up to £3million by utilising the HRA balances projected to be available at that time.
- 6.6 It is clear that if the changes that have witnessed since the introduction of self-financing in March 2012 were known (such as loss of rent convergence, then rent reductions and reinvigoration of right to buy) then

the loan portfolio taken out to finance the settlement would have been over a longer period and repayments most certainly starting later.

7. Future Challenges

- 7.1 There are some further developments which the Government has proposed that will have an impact on the Plan, that cannot be costed yet, and we have identified these below.
- 7.2 As part of the Conservative Party's manifesto it was announced that the Right to Buy policy would extend to Housing Association tenants. However to enable this policy to work, Housing Associations would need to be fully compensated for the sale of their properties at the much higher discounted rates than the Right to Acquire rates currently applied. This is because the Government has to demonstrate that it does not have overall control of the assets of Housing Associations or else their debt, some £60billion, would be considered as public borrowing. So in order to avoid this, full compensation has to be paid to Housing Associations so there is no demonstrable loss.
- 7.3 In order to fund these compensation payments the Conservative manifesto detailed that Local Authorities would be forced to sell their "high-value" voids, with the Government collecting the majority of the receipt to fund this policy.
- 7.4 Initial information produced prior to the election with regards to how a high value void would be identified was by region, not at a local level. This would see authorities in higher value areas (such as Oadby and Wigston) selling more stock in a region than those with lower values.
- 7.5 It is clear that since this Government took power much more work is required around how the policy would work for both Local Authorities and Housing Associations.
- 7.6 The first draft of the bill has now been published and gives further clarity as to what is now expected. In summary a determination will be issued by Government requiring an annual payment to Treasury. The Bill identifies that this will be based on their assessment of the Authorities high value properties and their expectations as to the number that will become void. It allows for annual amendments if required and does not reflect if high value properties become actually void.
- 7.7 Therefore there is the expectation that Authorities will sell high value properties to fund the determination as and when they become void, or fund the transaction via other means. There is no mention as to any mechanism for neither replacement of the property nor the contribution to a national Brownfield regeneration scheme.
- 7.8 Given this position it is difficult for us to model any potential impact of these sales of high value voids and whether match funding is required, as with the current '1-4-1' reserve arrangements. Therefore we need to identify this as

a risk to the Business Plan in terms of loss of income and the need for additional expenditure on replacement. The simple contingency plan to meet any net loss in rental income would be to either reduce provision for service enhancements and/or increase borrowing further.

- 7.9 The Government is also introducing a 'Pay to Stay' policy which means that properties that have household income over £30,000 per annum will be subject to market rent (or near market rent) rather than the current social rent. It is anticipated that a sliding scale will be introduced where, if the income is £40,000 or over, 100% of market rent should be charged. The onus will be on landlords to identify the tenants affected through changes to tenancy agreements to supply earnings information, which will obviously involve additional time and costs to the current housing service. Apart from this cost, the Government's proposals should have a neutral effect on the Council's Plan, since the potential additional income is forwarded to the Government and not for the Council to retain, unlike with Housing Associations. The recent consultation asks Council's for its views on this policy and how much it would cost to administer.

8. Summary

- 8.1 This review of the HRA Business Plan demonstrates that it is fully viable over the 30 years due the latest rent policy modelled. Viability is judged in that the capital expenditure can be maintained, the HRA does not fall into deficit and that the debt cap is not breached. The viability test fails on the ability to meet its assessed level of capital investment during years 15 to 18 and taking up until year 26 to catch up.
- 8.2 The impact of the rent reduction can clearly be seen and whilst it does not mean that immediate action needs to be taken, caution is required in terms of future investment decisions in terms of how they might impact on the medium to longer term ability to meet required investment levels when required.
- 8.3 Further consideration needs to be given once the value of the determination is known in relation to the sale of high value voids and the potential increase of right to buy sales through the 'Pay to Stay' policy.

Simon Smith

October 2015

Appendix 1 – General Assumptions

Description	Short –medium term (2015-19)	Long-term (2020 onwards)
Opening debt position	Opening debt at settlement £18.006m against cap of £21.769m	Long term cap £21.769m
Property changes over the plan	1,240 properties 1.4.2015 (reducing according to MTFP)	2 RTB per annum.
Economic – inflation and interest rates	As per MTFP	2.5% core inflation, 3% rent inflation (after 4 years), interest rates stable at 5% for required internal borrowing
Rents – convergence rate and RPI assumptions	£78.65 average rent - no convergence – rent reductions	3% long term rent increases (after 1% decreases)
Arrears and bad debts	As per MTFP	3.5% of rents long term
Management costs	As per MTFP	Inflation long term at 2.5%
Repairs costs	As per MTFP	Inflation long term at 2.5%
Capital profile	As per MTFP	£33.5m (no inflation) over 26 years based on existing stock moving with 2.5% inflation
Assumptions of efficiencies being delivered	As per MTFP	All inflationary pressures above main inflation absorbed
New Build	As per MTFP	None
Use of capital resources (RTB receipts etc) and explanation for basis	As per MTFP	RTB receipts available at 25% of average sale price fully used on GF

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	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
INCOME:														
Rental Income	4,973	5,055	4,972	4,890	4,822	4,765	4,900	5,039	5,182	5,328	28,989	33,326	38,309	44,033
Void Losses	-179	-107	-99	-98	-96	-95	-98	-101	-104	-107	-580	-667	-766	-881
Service Charges	290	228	286	292	300	307	315	323	331	339	1,828	2,068	2,340	2,647
Non-Dwelling Income	87	84	86	88	90	93	95	97	100	102	551	624	706	799
Grants & Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Income	5,171	5,260	5,245	5,173	5,115	5,070	5,212	5,359	5,509	5,663	30,788	35,351	40,588	46,598
EXPENDITURE:														
General Management	-1,406	-1,563	-1,458	-1,494	-1,532	-1,570	-1,610	-1,650	-1,691	-1,733	-9,339	-10,566	-11,954	-13,525
Special Management	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Management	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bad Debt Provision	-35	-89	-128	-119	-109	-95	-86	-76	-78	-80	-435	-500	-575	-661
Responsive & Cyclical Repairs	-1,022	-1,326	-1,360	-1,394	-1,428	-1,464	-1,500	-1,538	-1,576	-1,616	-8,705	-9,849	-11,143	-12,607
Total Revenue Expenditure	-2,463	-2,978	-2,946	-3,007	-3,069	-3,129	-3,196	-3,263	-3,345	-3,429	-18,478	-20,914	-23,672	-26,793
Interest Paid	-539	-589	-586	-611	-611	-629	-631	-658	-687	-728	-4,265	-5,012	-5,384	-5,442
Finance Administration	-8	-16	-16	-17	-17	-17	-18	-18	-19	-19	-104	-117	-133	-150
Interest Received	23	15	12	14	23	15	8	9	9	9	47	52	56	186
Depreciation	-1,183	-1,185	-1,215	-1,245	-1,276	-1,308	-1,341	-1,374	-1,408	-1,444	-7,778	-8,800	-9,957	-11,265
Net Operating Income	1,001	507	494	307	165	2	35	53	59	52	210	559	1,499	3,135
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	-174	-2,628	-464	0	0	-817	-12	-47	-47	-46	-162	-509	-1,446	-239
Total Appropriations	-174	-2,628	-464	0	0	-817	-12	-47	-47	-46	-162	-509	-1,446	-239
ANNUAL CASHFLOW														
Opening Balance	1,898	2,725	604	634	941	1,107	292	316	323	334	341	389	438	492
Closing Balance	2,725	604	634	941	1,107	292	316	323	334	341	389	438	492	3,387

HOUSING CAPITAL PROJECTIONS
Oadby and Wigston BC

Year £'000	2014.15 1	2015.16 2	2016.17 3	2017.18 4	2018.19 5	2019.20 6	2020.21 7	2021.22 8	2022.23 9	2023.24 10	2023-28 11-15	2028-33 16-20	2033-38 21-25	2038-43 26-30
EXPENDITURE:														
Planned Variable Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Planned Fixed Expenditure	-2,322	-4,856	-2,509	-1,213	-1,273	-1,305	-1,338	-1,371	-1,789	-1,834	-10,817	-11,261	-8,605	-10,723
Disabled Adaptations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Capital Expenditure	-209	-83	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	-12,572	-11,643	-589
Total Capital Expenditure	-2,531	-5,239	-2,509	-1,213	-1,273	-1,305	-1,338	-1,371	-1,789	-1,834	-10,817	-23,832	-20,248	-11,312
FUNDING:														
Major Repairs Reserve	2,197	1,185	1,215	1,213	1,273	336	334	368	402	437	2,746	3,769	6,938	11,073
Right to Buy Receipts	160	0	0	0	0	0	0	0	0	0	0	0	0	0
HRA CFR Borrowing	0	1,126	830	0	0	152	992	956	1,340	1,351	7,079	5,032	3,019	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	174	2,628	464	0	0	817	12	47	47	46	162	509	1,446	239
Total Capital Funding	2,531	5,239	2,509	1,213	1,273	1,305	1,338	1,371	1,789	1,834	9,987	9,309	11,402	11,312
In-Year Net Cashflow	0	0	0	0	0	0	0	0	0	0	-830	-3,088	-575	0
Cumulative Position	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MRR Account:														
Opening Balance	1,014	0	0	0	32	35	0	0	0	0	0	0	0	0
Net Contribution (Depr)	1,183	1,185	1,215	1,245	1,276	1,308	1,341	1,374	1,408	1,444	7,778	8,800	9,957	11,265
Use of Reserve to Capital	-2,197	-1,185	-1,215	-1,213	-1,273	-336	-334	-368	-402	-437	-2,746	-3,769	-6,938	-11,073
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	£35	£0	£0	£0	£0	£0	£0	£0	£0	£192