Appendix 5

Oadby and Wigston Borough Council: HRA self-financing business plan model

As we enter the final quarter of 2013/14, the HRA business plan model has been updated to reflect activity in 2013/14 and to project forward based on the assumptions set out below. The business plan model has been reconciled to the 2014/15 HRA budget and capital programme as they have been developed. The model represents the current understanding of the updated baseline for the HRA subject to challenge and review. In particular, further iterations will be required around:

- The use of retained 'one for one' right to by receipts required to be spent on additional affordable housing

- Confirmation from Government on the implementation arrangements for the changes to social rent policy

Baseline assumptions

- 1,249 rental properties with 10 Right to Buys (RTB) in 2014 settling back to 2 annually over the 30 year plan period in line with long term trends.

- RTB receipts over and above those within the settlement will be retained for new affordable housing as per the RTB retention agreement. These are currently forecast to be around £116,000 requiring a minimum of £387,000 of new build expenditure (suitably phased) by the end of September 2017. The original 25% of the receipts will be used for general fund purposes.

- Opening HRA balance of £940,000; opening MRR balance of £749,000 and opening Regeneration Reserve balance of £500,000
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- Opening debt (as measured by the HRACFR) of £18.006m against a debt cap of £21.769m giving borrowing headroom of £3.763m

- Total capital needs of £42.9 million over 30 years; £1,142 per unit at today's prices) based on the latest Stock Condition Survey. The detailed capital programming for 2015/16 onwards is now subject to further review which may have a knock on effect to the profile of when resources are used. However, the quantum of resource is available to meet the needs of the stock over the life of the plan.

- 5 years capital programme potential from 2014-2018 is £12.14million – this potential includes up-rated depreciation, balances in the major repairs account, balances in the investment reserve and potential additional revenue (if not committed to other

priorities). It does not include borrowing headroom although some has been used as per the following bullet point

- There is a need to draw down borrowing of £985,000 to fund the stock investment plan - £415,000 in 2014/15 and £570.000 in 2016/17. The precise cash flows and borrowing decisions will depend on the programme being fully resourced with no slippage. The borrowing assumes no use of the investment reserve of £500,000 which could be used in place of borrowing.

- Depreciation is included at £930 per property as per the uprated MRA from the self-financing settlement. No non-dwelling depreciation has been included in the plan.

- Revenue non-rent income and management and maintenance expenditure have been set to equal the 2014/15 budget and are uplifted by a general inflation set at 2.5% in future years

- Supporting People grant has been removed for future years. Further work will be required to understand whether this will have a corresponding reduction in the cost base or whether these services will continue to be met.

- Interest receivable on notional balances has been included in the plan. This is considerable in the later years of the plan as surpluses grow quickly.

- Rent increases for 2014/15 are based on RPI + 0.5% plus £2 but then no convergence included following 2014/15 in line with the Governments rent policy changes. Under the Government's proposals, rents increase by CPI +1% thereafter which has been assumed at 3% per annum (CPI of 2% plus 1%)

- The change to Government rent policy removes capacity from the business plan as it is assumed that the gap between actual and formula rents that was originally due to be made up over time will now not happen. The average gap in 2014/15 is £3.15 and therefore financial capacity of over £200,000 has been removed from the point of convergence and for all future years.

- Provision for bad debts has been increased in 2014/15 to 1% of rent roll to reflect the changes in welfare reform. Provision has been made to increase this to 1.75% in 2015/16 and 2.5% in 2016/17 to reflect the introduction of Universal Credit. This then reduces back to 2.25% in 2017/18 and 2% thereafter.

Summarising outputs

The 5 year capital programme potential (2014/15-2018/19) is summarised as follows:

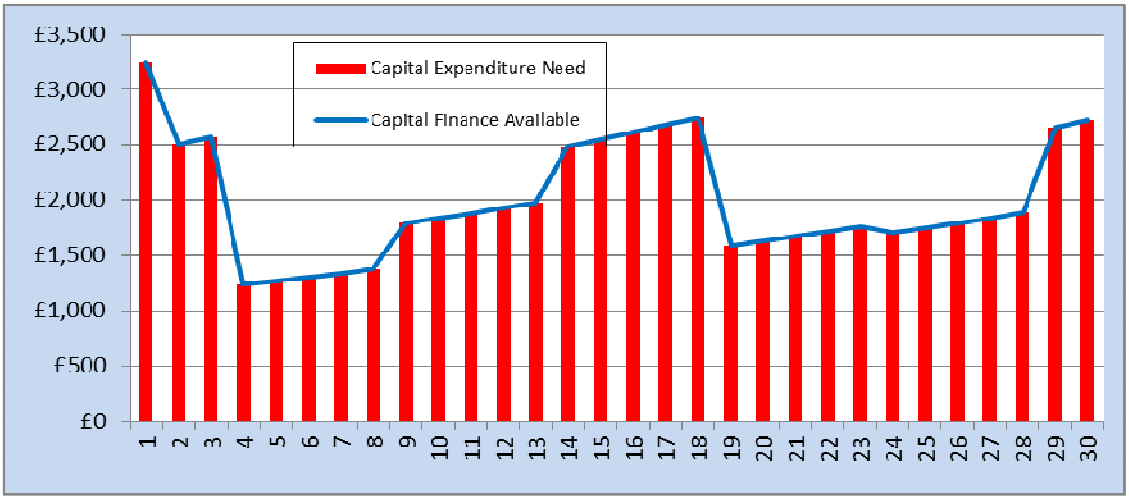
Description	£m
Programme potential	**12,144**
Major Repairs Reserve balance	749
Depreciation (set aside for major repairs)	6,082
Available revenue contributions	4,813
Regeneration Reserve	500
2013/14 annual programme	**1,626**

Therefore, the plan is able to sustain investment at a considerably enhanced level (compared to now) with existing service levels rolled forward.

The current debt profile is to use some additional borrowing of £985,000 to fund the enhanced programmes before paying off debt in instalments from 2023/24 to 2033/38. There is however no requirement to bring debt down – in fact the case for maintaining debt at a managed level whilst additional rental surpluses are committed to expanded programmes is strong. A key aspect of the next phase of the business plan is gaining a sense of priorities from stakeholders and members in where to deploy growing resources as they arise over the medium term

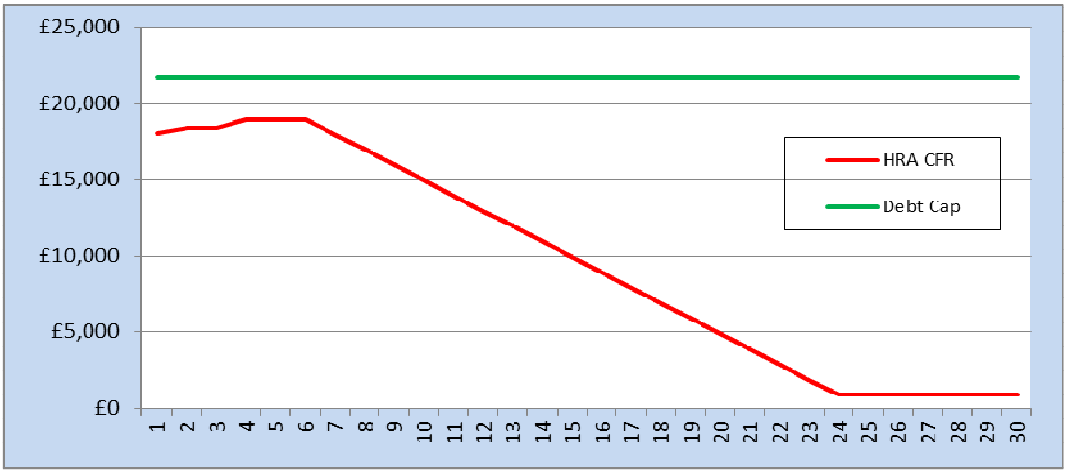
There do remain some uncertainties around the outcome of some of the major assumptions made. The detailed future investment programme post 2014/15 appears to be a key piece of work to model and review as well as monitoring how key risks around welfare reform and changes to rent policy play out. The following charts summarise the updated baseline position.

Capital programme vs resources



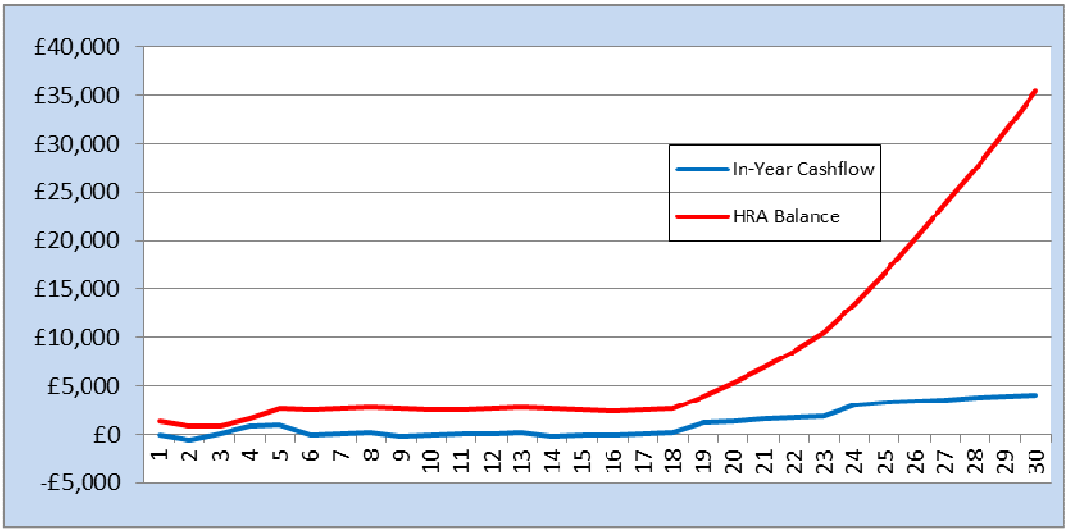
Plan based on 2014/15 cap programme and then stock condition survey; fully financed all years.

Total Debt



£985,000 borrowing headroom (of £3.7m) used to fund capital programme. Headroom grows significantly in the medium term as debt is repaid

Cash-flow and balances



Balances used to fund capital programme and then repay borrowing from year 6. Minimum balance of £300,000 retained in all years.

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CIH January 2014