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**South Cambridgeshire** District Council

4 November 2015

To: Chairman – Councillor Roger Hickford
Vice-Chairman – Councillor Kevin Cuffley
Members of the Scrutiny and Overview Committee – Councillors David Bard, Henry Batchelor, Grenville Chamberlain, Jose Hales, Philippa Hart, Bunty Waters and David Whiteman-Downes

Quorum: 6

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **SCRUTINY AND OVERVIEW COMMITTEE** on **THURSDAY, 5 NOVEMBER 2015**, containing those reports which had not been received by the original publication deadline.

Yours faithfully
**JEAN HUNTER**
Chief Executive

Requests for a large print agenda must be received at least 48 hours before the meeting.

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## AGENDA

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# Agenda Item 7

South
Cambridgeshire
District Council

| | | |
|---|---|---|
| **Report To:** | Leader & Cabinet | 12 November 2015 |
| **Lead Officer:** | Executive Director (Corporate Services) | |

## Medium Term Financial Strategy (MTFS)

### Purpose

1. To provide Cabinet with an update to the General Fund forecasts and underpinning assumptions and their impact on the Council's MTFS.

2. This is not a key decision but it has been brought before Cabinet to facilitate the preparation of detailed budgets for 2016-17 and to frame the Council's MTFS considerations including the likely scope of additional income/savings required over the forecast period. It was first published in the July 2015 Forward Plan.

3. As a result of various announcements regarding national housing policy and welfare reform, a separate paper setting out the proposed Housing Revenue Account (HRA) budget strategy, assumptions and conclusions is appended to this report.

### Recommendations

4. It is recommended that Cabinet:
   (a) notes the General Fund forecast at **Appendix A** and approves the assumptions underpinning the MTFS set out in this report;
   (b) approves the HRA budget strategy and assumptions and notes the conclusions set out in **Appendix B**;
   (c) approves the addition of £150,000 in the HRA capital programme in relation to the Self-Build Vanguard pilot project;
   (d) instructs the Head of Finance to bring forward detailed draft estimates for 2016-17 based on the assumptions and issues contained in this report for consideration by Cabinet in the new year; and
   (e) instructs Executive Management Team (EMT) to identify and develop other options for meeting the MTFS additional income/savings requirement.

### Reasons for Recommendations

5. The General Fund forecast at **Appendix A** summarises the financial issues arising over the medium term and, together with the assumptions in this report, sets the parameters for drawing up detailed budgets for 2016-17 and the likely scope of any additional income/savings required to maintain balances at a minimum level of £2.5m.

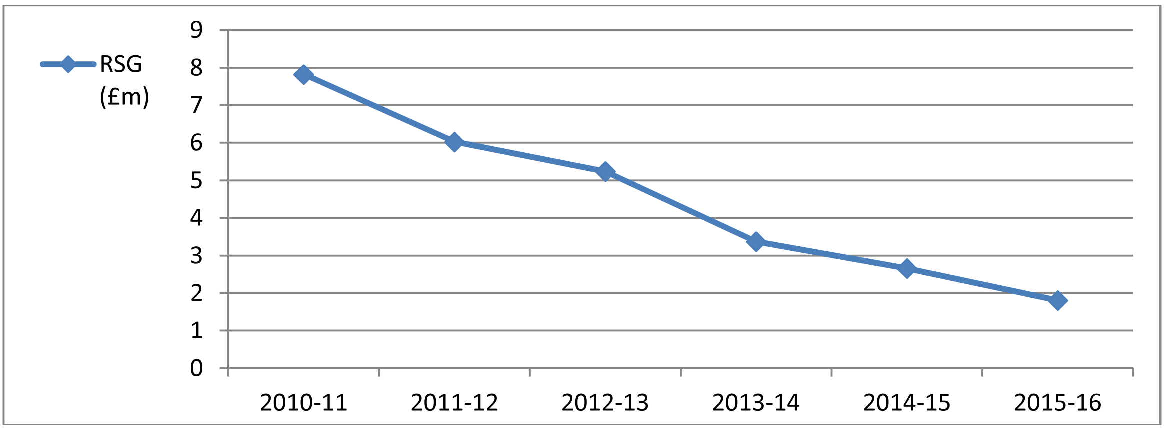
6. The forecast anticipates a continuing contraction in central government financial support for the authority, although at this stage there is no certainty of the actual level of funding receivable for 2016-17. The next MTFS forecast update to Cabinet will reflect the outcome of the Government's Autumn Statement and Spending Review, and the Local Government Finance Settlement.

7. The Self-Build Vanguard pilot project money will be recycled as sites are developed and sold, and the capital receipts realised – page 16 of **Appendix B** refers.

**Background**

8. Government funding of local government through Revenue Support Grant (RSG) reduced over the period of the last Parliament, and including the first year of this Parliament (which was determined by the previous one). The figures are shown in Table 1 below.

| Table 1 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| ***RSG*** | £7.823m | £6.026m | £5.239m | £3.372m | £2.657m | £1.807m |




9. The coalition Government's fiscal plans set out in the March 2015 Budget included:
- 2% cuts year on year;
- £12bn from welfare reform in 2 years;
- 10% reductions for unprotected department budgets over the Parliament.

10. The Chancellor of the Exchequer announced in the new Government's July 2015 Budget that overall deficit reduction targets would remain, but that welfare reform would now be phased over four years rather than two. In addition, the Government added defence to the list of protected departmental budgets, thereby essentially pledging to increase spending on health, defence and overseas development aid, and to freeze spending on education.

11. This puts more pressure on other unprotected Government department budgets (including Communities and Local Government), which now face cuts of around 27% between 2015-16 and 2019-20. The phasing of welfare reform over four years rather than two, but with overall deficit reduction targets remaining, implies that these cuts will probably need to be front-loaded into the first two years to offset the shallower reductions in welfare costs. Government departments have provided the Treasury with an assessment of the implications of cuts to their budgets of 25% and 40% over that period.

12. On 9 September 2015 the Chancellor of the Exchequer announced that there will be an Office for Budget Responsibility (OBR) forecast alongside the Spending Review on 25 November 2015. The Government will therefore publish a joint Autumn Statement and Spending Review; the latter will give the Treasury's allocation of budgets to Government departments for the four financial years 2016-17 to 2019-20. The Local Government Finance Settlement is expected some time in December 2015.

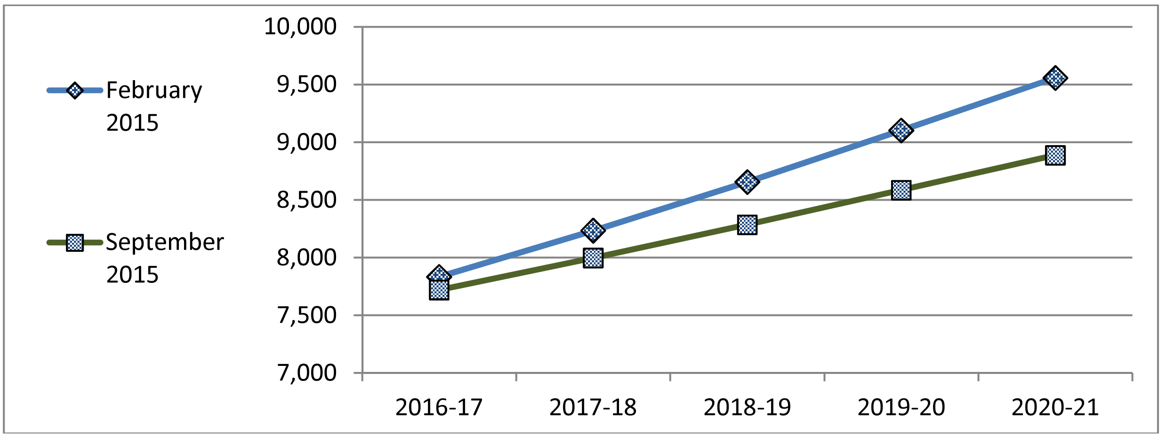
13. On 5 October 2015 the Chancellor of the Exchequer set out plans for local government to gain new powers and retain local taxes so that, by the end of the Parliament, local government will be able to retain 100% of local taxes including all revenue from business rates. The Government will set out further details in the Spending Review.

**Considerations**

14. Based on referendum criteria for the last two years, and with a new Conservative Government, it is considered unlikely that the Council will be able to raise council tax by 3.5% or £5 p.a. (whichever is the lesser), as assumed in the MTFS approved at Council in February 2015. The MTFS has therefore been re-modelled on the assumption that council tax increases will be less than 2% in 2016-17 and thereafter. The referendum criteria for 2016-17 will probably not be known until late January / early February 2016.

15. Based on council tax increases of less than 2%, the resulting 'Council Tax Requirement' or "Yield" is estimated to fall by a total of £1.909m over the 5 year period of the MTFS, as shown in Table 2 below:

| Table 2 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| ***Council tax Band D rate*** | | | | | |
| February 2015 | £129.69 | £134.22 | £138.91 | £143.77 | £148.77 |
| November 2015 | £127.81 | £130.36 | £132.96 | £135.61 | £138.32 |
| ***Resulting Council Tax Yield*** | | | | | |
| February 2015 | £7.833m | £8.234m | £8.656m | £9.102m | £9.558m |
| November 2015 | £7.720m | £7.997m | £8.285m | £8.585m | £8.887m |
| Differences | £0.113m | £0.237m | £0.371m | £0.517m | £0.671m |




16. The council tax base is due to be determined in December 2015. In preparation for this, provisional figures have been sent to each parish to review and confirm (or suggest alternative figures); the final figures and future trajectory projections will be used in the MTFS presented for approval to Cabinet and Council in February 2016.

17. No MTFS modelling has yet been done of the possible effects on Retained Business Rates resulting from local authorities gaining new powers and retaining local taxes, as:

(a) it is not clear whether these will depend on devolution agreements being in place, nor how much additional business rates income might arise (e.g. all revenue from business rates, or all increased business rates above previous forecast levels);

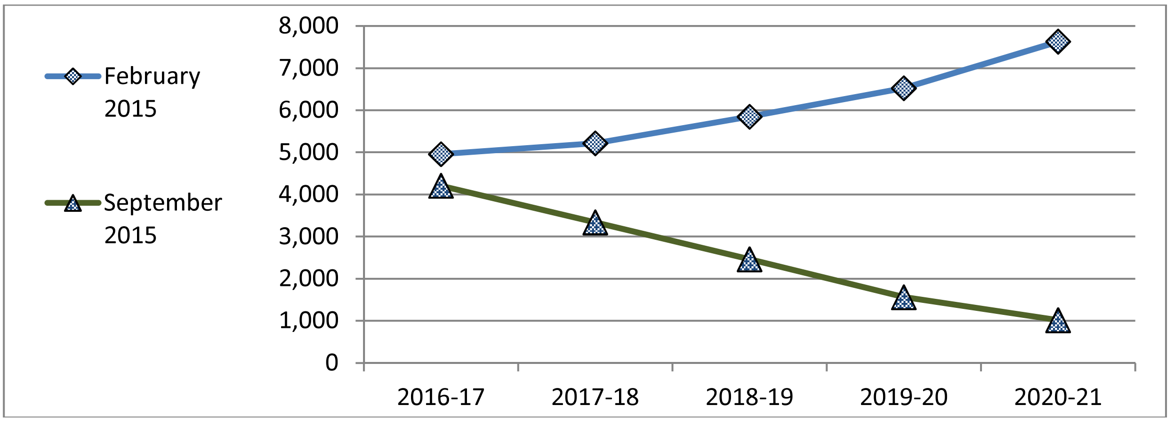
(b) it appears that the powers will include the ability for local authorities to cut business rates to boost enterprise and economic activity in their areas, but the basis for this would need to be approved by each authority;
(c) it is assumed that authorities will still be subject to a tariff and levy system; and
(d) authorities will still face risks from valuation appeals and business closures.

18. As mentioned in paragraph 10 above, the implication from phasing of welfare reform over four years rather than two, but with overall deficit reduction targets remaining, is that cuts to unprotected Government department budgets (including Communities and Local Government) will need to be front-loaded into the first two years. The MTFS has therefore been re-modelled on the basis of a 40% funding cut over the 2 years, 2016-17 and 2017-18.

19. There are many possible combinations of other future changes/assumptions that might be modelled, arising from the Spending Review / Autumn Statement / Local Government Finance Settlement; one set of assumptions has been chosen to illustrate what the potential impact on the MTFS might be:
(a) no New Homes Bonus (NHB) w.e.f. 1 April 2016, but that money recycled through other local government funding streams (i.e. RSG);
(b) the Council continuing to receive current NHB, on a gradually reducing basis as early years drop out.

20. Table 3 below shows that NHB would fall by a total of £17.584m over the 5 year period of the MTFS:

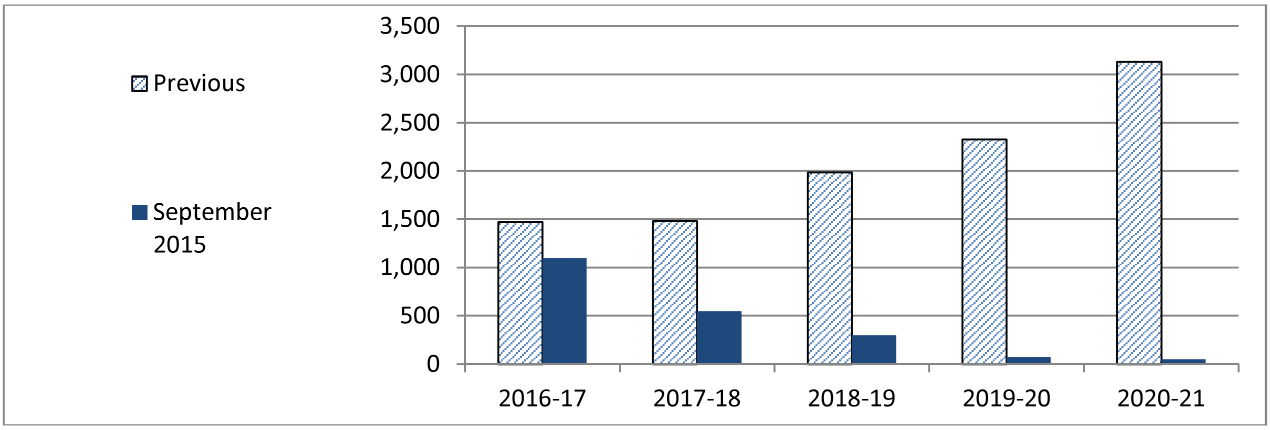
| Table 3 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| ***New Homes Bonus (£m)*** | | | | | |
| February 2015 | 4.955 | 5.214 | 5.845 | 6.524 | 7.631 |
| November 2015 | 4.208 | 3.339 | 2.461 | 1.562 | 1.015 |
| Differences | 0.747 | 1.875 | 3.384 | 4.962 | 6.616 |




21. £1.8m of NHB is currently being used to support expenditure previously funded from Housing & Planning Delivery Grant (H&PDG); NHB has also been used to contribute to rural broadband in the district and fund some Local Plan expenditure. Part of the balance of NHB money has been allocated to the City Deal (40% in 2015-16, 50% thereafter); the remainder is transferred to an Infrastructure Fund, to support infrastructure needs of future developments; the Council's contribution to the A14 upgrade will come from this fund. A reduction in NHB would have significant effects on both City Deal funding and the Council's Infrastructure Fund.

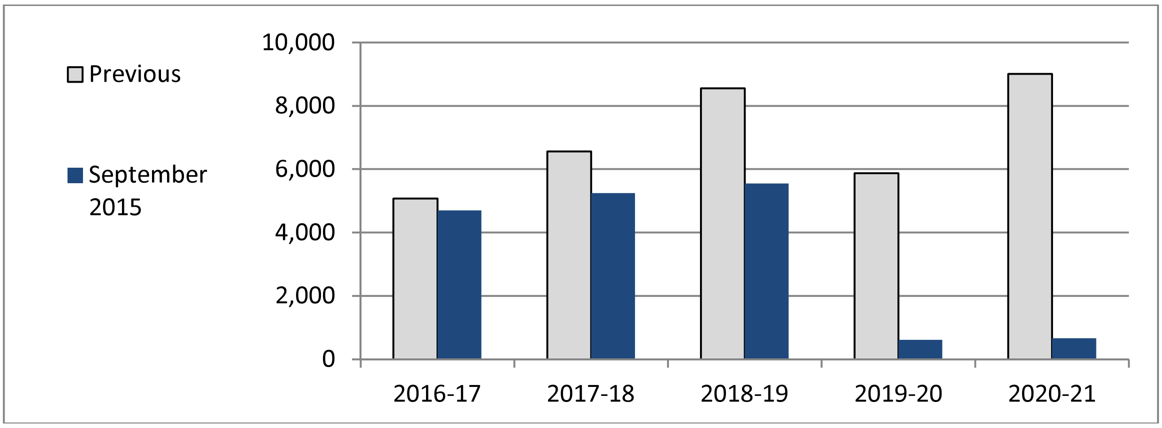
22. The effect on the City Deal would be significant reductions in contributions over the period of the MTFS, as shown in Table 4 below. This could be a point of discussion/ negotiation with the Government over City Deal / local government funding streams.

| Table 4 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| ***Effect on City Deal funding (£m)*** | | | | | |
| Previous | 1.472 | 1.483 | 1.989 | 2.328 | 3.132 |
| November 2015 | 1.099 | 0.546 | 0.297 | 0.073 | 0.049 |
| Differences | 0.373 | 0.937 | 1.692 | 2.255 | 3.083 |




23. The effect on contributions to the Council's Infrastructure Fund would be the same of for the City Deal; however, there would be sufficient money in the fund to meet the A14 contribution in 2019-20, as Table 5 below shows. Projections beyond the end of the MTFS approved at Council in February 2015 indicated that use of the Infrastructure Fund to support expenditure previously funded from H&PDG would need to be progressively scaled back from 2020-21; the modelled change to NHB means this would need to be brought forward a year.

| Table 5 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| ***Effect on Infrastructure Fund balances (£m)*** | | | | | |
| Previous | 5.077 | 6.560 | 8.549 | 5.877 | 9.009 |
| November 2015 | 4.703 | 5.248 | 5.545 | 0.617 | 0.667 |
| Differences | 0.374 | 1.312 | 3.004 | 5.260 | 8.342 |




24. Recycling NHB money through RSG would provide an additional £282k in 2016-17; however this would be lost the following year as the second year of the modelled 40% funding cut took effect.

25. Alongside reviewing the MTFS and its underlying assumptions, directors were asked to identify inescapable and other spending pressures, and opportunities for further income/savings, in 2015-16 and over the period of the MTFS. Table 6 below shows the areas and costs/savings identified; some of the costs have yet to be confirmed. Where spending pressure costs have been confirmed, they have been modelled in the MTFS.

| Table 6 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Note |
|---|---|---|---|---|---|---|---|
| ***Spending pressures / Opportunities for income/savings (£000)*** | | | | | | | |
| Corporate Services | | | | | | | |
| Increased debit card transaction costs | 30 | 30 | 30 | 30 | 30 | 30 | |
| Electoral registration | 0 | 50 | 50 | 50 | 50 | 50 | 1 |
| Elections | 0 | 0 | 0 | 40 | - 80 | - 80 | |
| Health & Environmental Services | | | | | | | |
| New RECAP MRF contract | 70 | 86 | 86 | 86 | 86 | 86 | 2 |
| Paper contract income | 50 | 127 | 127 | 127 | 127 | 127 | 3 |
| Housing growth impact on waste operations | 0 | ?? | ?? | ?? | ?? | ?? | 4 |
| Footway lighting | 0 | 0 | ?? | ?? | ?? | ?? | 5 |
| Housing General Fund | | | | | | | |
| Homelessness | 0 | ?? | ?? | ?? | ?? | ?? | 6 |
| ***Totals*** | ***150*** | ***293*** | ***293*** | ***333*** | ***213*** | ***213*** | 7 |

Notes
1. Funding for transition to Individual Electoral Registration is likely to end in December 2015. The figures are the best estimate of the ongoing cost of registration, no longer supported by Government grant.
2. Modelling of SCDC recyclate volumes and values, using figures from other authorities already in the RECAP contract.
3. Contract renewed October 2015 for 2 years; figures based on reduced tonnages collected and reduced market price.
4. Awaiting updated housing occupation projections, so not modelled in the MTFS yet.
5. Asset management plans from the contractor are currently being reviewed.
6. Increases in expenditure are anticipated as a result of the welfare benefit changes; work is being done to ascertain how quickly homeless applications might increase, exacerbated by fewer void Council properties in which to accommodate applicants, and the resulting possible levels of additional expenditure required, which will be reflected in the future revenue budget and precautionary item amount.
7. Once the outstanding figures are known and input, they will increase the totals and therefore the additional income/savings requirement.

26. As some of the inescapable spending pressures have yet to be confirmed, and in the light of the shortfall in additional income/savings so far identified in the first two years, EMT asked directors to consider other options:
   (a) Acceleration of commercialisation projects: Bailiff Service; Trade Waste; Business Hub;
   (b) Review provisions for pay increases and general inflation (both currently at 2% p.a. in accordance with the MTFS approved by Council in February 2015).
      (i) The government announced in the July 2015 budget that it will fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. Accordingly, staffing estimates included within the MTFS have

been provisionally re-modelled on the basis of 1% pay increases from 2016-17 for 4 years and 2% thereafter.

(ii) The general provisions for inflation from 2016-17 onwards included within the MTFS have also been provisionally re-modelled in line with the OBR's latest CPI forecast (July 2015), to 1.4% in 2016-17, 1.8% in 2017-18, 1.9% in 2018-19 and 2019-20 and 2% thereafter.

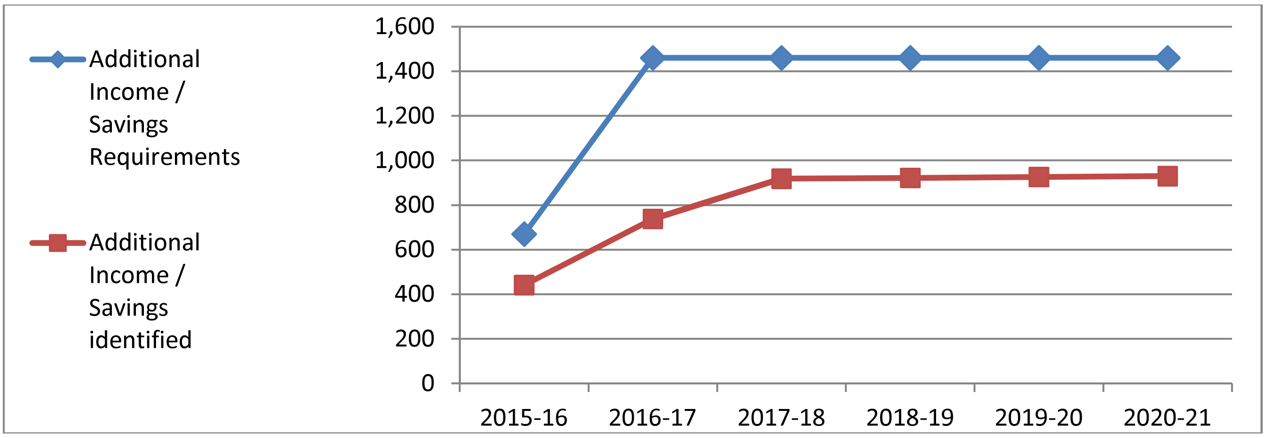
(c) Check the levels of other earmarked reserves.

27. The resulting General Fund forecast set out at **Appendix A** indicates that additional income/savings in the region of £1.440m need to be found from 2016-17 onwards to ensure balances are maintained at no less than £2.5m by the end of March 2021. An alternative would be for this to be phased in over the period of the MTFS, i.e. a lower figure for 2016-17 with compensating higher figures in later years.

28. Areas so far identified to meet the additional income/savings target are shown in Table 7 below, but they depend on the areas identified achieving the additional income/ savings, and there are shortfalls in 2015-16 and 2016-17.

| Table 7 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Note |
|---|---|---|---|---|---|---|---|
| ***Areas so far identified to meet the additional income/savings target (£000)*** | | | | | | | |
| Single Shared Waste Service and other waste initiatives | 52 | 166 | 341 | 341 | 341 | 341 | 1 |
| Increased Planning Pre-App fee income | 100 | 100 | 100 | 100 | 100 | 100 | |
| Goods, Supplies and Services procurement | 50 | 50 | 50 | 50 | 50 | 50 | |
| Office Space Management | 37 | 50 | 50 | 50 | 50 | 50 | |
| Shared Services / Commercialisation Programme | 0 | 270 | 275 | 279 | 283 | 287 | 2 |
| Interest on investments | 100 | 100 | 100 | 100 | 100 | 100 | 3 |
| Other | 102 | 2 | 2 | 2 | 2 | 2 | 4 |
| ***Totals*** | ***441*** | ***738*** | ***918*** | ***922*** | ***926*** | ***930*** | |

Notes
1. The 2015-16 figure is a proportion of the anticipated savings on staffing and accommodation costs; it is unlikely that any savings will accrue from round reductions in 2015-16. The figures for 2016-17 onwards represent SCDC's share (assumed at 50%) from the report to Cabinet of 16 October 2014.
2. The figures represent SCDC's shares from the Building Control, ICT and Legal shared services business case reports to Cabinet on 9 July 2015.
3. The figures represent interest on investments above previous forecasts, including from the current Ermine Street Housing pilot project.
4. The 2015-16 figure includes a windfall cost saving on fuel for refuse and street cleansing vehicles.




29. Ways of meeting the additional income/savings to be identified include: acceleration of commercialisation projects: Bailiff Service; Trade Waste; Business Hub; and review of earmarked reserves (both, as mentioned in paragraph 25 above).

30. One additional area identified by directors is net income to the Council from Ermine Street Housing; however, this is subject to consideration by the Council on 26 November 2015 so no figures have been incorporated into MTFS projections as yet.

**Implications**

31. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

***Financial***

32. As detailed in the report.

***Staffing***

33. Outcomes of known restructuring exercises and other staff changes have been reflected in the figures within the forecasts.

***Risk Management***

34. There are a range of risks to any financial forecast; the Strategic Risk Register mentions several that could relate to the MTFS, including:
   (a) Uncertainty over the level of central government funding from 2016-17 on;
   (b) Continued uncertainty over the impact of successful outstanding valuation appeals on retained business rates yields.

***Equality and Diversity***

35. The report is for information and in itself has no equality impact.

**Consultation responses (including from the Youth Council)**

36. EMT has been consulted on the assumptions that build up the MTFS and this report and appendices reflect those consultations.

**Effect on Strategic Aims**

**Aim 1 – Engage with residents, parishes and businesses to ensure we deliver first class services and value for money**

37. Improve efficiency and value for money within a viable financial strategy.

**Background Papers**
Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection: -

(a) at all reasonable hours at the offices of South Cambridgeshire District Council;
(b) on the Council's website; and
(c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

Original Estimates 2015-16

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John Garnham – Principal Accountant (General Fund and Projects)
Telephone: (01954) 713101

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# MEDIUM TERM FINANCIAL STRATEGY for the General Fund

Appendix A

## November 2015 - DRAFT

| General provision for Inflation | | 2.1% | | | 1.4% | | 1.8% | | 1.9% | | 1.9% | | 2.0% | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assuming a council tax increase of 1.99% in 2016-17** | Actual 2014/15 £'000 | Estimate 2015/16 £'000 | | Projected Estimate 2015/16 £'000 | Projected Estimate 2016/17 £'000 | | Projected Estimate 2017/18 £'000 | | Projected Estimate 2018/19 £'000 | | Projected Estimate 2019/20 £'000 | | Projected Estimate 2020/21 £'000 | |
| Base Budget | 14,281 | 15,703 | | 15,856 | 16,377 | | 16,903 | | 17,114 | | 17,339 | | 17,743 | |
| **Additional income/savings to maintain working balance** | **0** | **(670)** | | **(670)** | **(1,440)** | | **(1,440)** | | **(1,440)** | | **(1,440)** | | **(1,440)** | |
| Non-recurring expenditure on infrastructure, communal facilities, etc. | 1,580 | 2,019 | | 2,019 | 2,198 | | 1,091 | | 593 | | 145 | | 99 | |
| Financial Position Report July 2015 | | | | (310) | | | | | | | | | | |
| Net Portfolio Expenditure | 15,861 | 17,052 | | 16,896 | 17,135 | | 16,554 | | 16,267 | | 16,044 | | 16,401 | |
| Interest on balances | (374) | (591) | | (591) | (594) | | (596) | | (597) | | (599) | | (601) | |
| Interest to HRA, Internal Drainage Boards, Reversal of Depreciation and Minimum Revenue Provision | (468) | (363) | | (363) | (179) | | 19 | | 508 | | 637 | | 536 | |
| Net District Council General Fund Expenditure | 15,019 | 16,099 | | 15,942 | 16,362 | | 15,977 | | 16,177 | | 16,082 | | 16,336 | |
| New Homes Bonus | (3,201) | (4,154) | | (4,154) | (4,208) | | (3,339) | | (2,461) | | (1,562) | | (1,015) | |
| Appropriations to/(from) General Fund working balance | (934) | (483) | | (327) | 148 | | (585) | | (1,841) | | (2,800) | | (2,360) | |
| General Expenses | 10,884 | 11,461 | | 11,461 | 12,302 | | 12,053 | | 11,875 | | 11,720 | | 12,962 | |
| Revenue Support Grant | (2,608) | (1,830) | | (1,830) | (1,660) | -9.3% | (888) | -46.5% | (435) | -51.1% | (0) | -100% | 0 | |
| Retained Business Rates | (3,286) | (3,462) | | (3,462) | (3,522) | | (3,641) | | (3,771) | | (3,915) | | (4,075) | |
| (Surplus)/Deficit on Council Tax Collection Fund | (65) | (132) | | (132) | 0 | | 0 | | 0 | | 0 | | 0 | |
| Provision for successful business rates appeals | 2,231 | 1,442 | | 1,442 | 600 | | 473 | | 615 | | 780 | | 0 | |
| Council Tax Requirement to be raised from council taxpayers | 7,156 | 7,479 | | 7,479 | 7,720 | | 7,997 | | 8,285 | | 8,585 | | 8,887 | |
| | Number | Number | | Number | Number | | Number | | Number | | Number | | Number | |
| Tax Base for Tax Setting Purposes including discount for localised council tax support | 58,242.6 | 59,680.4 | | 59,680.4 | 60,400.4 | 1.2% | 61,345.5 | 1.6% | 62,314.0 | 1.6% | 63,309.4 | 1.6% | 64,248.9 | 1.5% |
| Basic Amount of Council Tax | £ | £ | | £ | £ | | £ | | £ | | £ | | £ | |
| District only | 122.86 | 125.31 | 1.99% | 125.31 | 127.81 | 1.99% | 130.36 | 2.0% | 132.96 | 2.0% | 135.61 | 2.0% | 138.32 | 2.0% |
| Underlying Council Tax with no appropriations from the General | £ | £ | | £ | £ | | £ | | £ | | £ | | £ | |
| Fund Balance or Earmarked Reserves | 110.30 | 133.41 | | 130.78 | 125.36 | | 139.90 | | 162.50 | | 179.83 | | 175.04 | |
| Balances at Year End | £'000 | £'000 | | £'000 | £'000 | | £'000 | | £'000 | | £'000 | | £'000 | |
| General Fund (recommended minimum level £2.5 million) | (10,277) | (9,557) | | (9,950) | (10,098) | | (9,513) | | (7,672) | | (4,872) | | (2,513) | |
| Infrastructure Fund b/fwd | | | | (2,393) | (3,604) | | (4,703) | | (5,249) | | (5,545) | | (618) | |
| Add: Non recurring expenditure etc | | | | (2,019) | (2,198) | | (1,091) | | (593) | | (145) | | (99) | |
| Less: Contribution to City Deal (2019/20, A14) | | | | 808 | 1,099 | | 546 | | 297 | | 5,073 | | 49 | |
| Infrastructure Fund c/fwd | (2,393) | (4,015) | | (3,604) | (4,703) | | (5,249) | | (5,545) | | (618) | | (667) | |
| Usable Capital Receipts Reserve | (675) | (675) | | (675) | (470) | | (323) | | (211) | | (4) | | 0 | |

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# Housing Revenue Account Medium-Term Financial Strategy

**November 2015**

2015/16 to 2044/45

South Cambridgeshire District Council

# Contents



# Appendices

# Section 1
Background

# Background

The Housing Revenue Account (HRA) Medium-Term Financial Strategy is to be read in conjunction with the HRA 30-Year Business Plan, which set the scene for the financial environment in which the HRA has operated since the introduction of self-financing in April 2012.

This report considers whether there are any material changes which need to be considered as part of the financial planning for the HRA, in preparation for the 2016/17 budget process and recommends any changes to the financial strategy. The report makes proposals for the development of both revenue and capital budgets for 2016/17, providing an indication of any change in the impact on the HRA Business Plan.

The HRA Medium-Term Financial Strategy incorporates a review of the current economic climate and highlights any changes in national or local housing policy, which will impact the HRA in future years. The report confirms the assumptions that are being made as part of the preparatory work for the 2016/17 budget setting process, and identifies the longer-term impact of these assumptions for the HRA.

# Section 2
## The National Policy Context and External Factors

# External Factors

As part of the Housing Revenue Account Medium-Term Financial Strategy, the assumptions made in previous years have been reviewed, and amended where appropriate. The impact that external factors, outside of the control of the organisation, have on the operation of the housing business, is key in decision making.

A table detailing all of the revised business planning assumptions is included at Appendix A.

### Inflation Rates

The base rate of inflation used to drive expenditure assumptions in the HRA financial forecasts is the Consumer Price Index (CPI). Having reviewed changes in this measure of inflation over the past 12 months, the average rate of growth has dropped significantly compared with previous years.

However, recognising the government's medium term view that CPI will rise to 2%, it is proposed to adopt the Office of Budget Responsibility's predictions that CPI will increase incrementally towards this, with the following rates assumed in the HRA financial model as part of the HRA Budget Setting Report:

2016/17 1.4%
2017/18 1.8%
2018/19 1.9%
2019/20 1.9%
2020/21 2.0%

It is proposed that expenditure in respect of building maintenance is inflated in the financial forecasts using the Building Cost Information Service (BCIS) all in tender price index. This index is volatile, with historic peaks and troughs in the rates between years. The industry is performing well at present, with an increase in building projects and a shortage in materials and labour driving an increase in the inflation indices. According to the RICS (Royal Institution of Chartered Surveyors) BCIS All in Tender Price Index, figures in recent periods have shown increases of between 6% and 9%, with predictions for the coming 5 year period being for increases of between 4.5% and 6% as the industry continues to cope with increasing demand.

Based upon this latest external expert opinion, and their predictions provided for the coming 5 year period, it is recommended that the assumption incorporated is that this index continues to increase at 3% above CPI for the next 5 years, reducing to an assumption of 1% above CPI over the longer term and for the remainder of the plan.

## Interest Rates on Lending

The HRA is credited with interest, from the General Fund, based upon average housing cash balances throughout the year.

Following legislative changes from April 2014, the level of balances which the HRA holds and is entitled to receive interest upon is higher than in the past, with interest credited to the HRA on both revenue and capital balances held. However, the rate of interest receivable on the investment of these balances and reserves remains very low.

The latest interest rate assumptions are included in Appendix A.

## Interest Rates on Borrowing

The Council secured preferential fixed rate borrowing from the Public Works Loans Board (PWLB), of between 3.44% and 3.53% for the self-financing loan portfolio taken out on 28th March 2012.

The HRA is subject to a debt cap, over which it is unable to borrow further. The debt cap is £205,123,000. Due to a small of internal lending to the General Fund, the HRA has a Capital Financing Requirement (HRA CFR) of £204,429,000. This allows for up to £694,000 of additional HRA borrowing, with financial models assuming this would be borrowed at 4% for prudency.

## Right to Buy Sales

In 2014/15, 29 right to buy sales were recorded, compared with 28 in 2013/14 and 24 in 2012/13. This demonstrates continued increase in completion activity at the higher level, following the steep escalation experienced from April 2012, when the scheme was re-invigorated by government.

In the first 6 months of 2015/16, 13 completions have taken place, indicating a marginal slowing down in activity.

However, in a bid to further support tenants in buying their council homes, the government has reduced the qualifying period from 5 to 3 years, and introduced the Right to Buy Agent, an advice service for tenants.

It is impossible to accurately predict future sales, although it is anticipated that the reduction in the qualifying period and a proposal to charge market rents for all households earning over £30,000 per annum, may cause some re-escalation in sales levels that were otherwise starting to show some signs of slowing again.

With this in mind, it is considered appropriate to make an assumption of future sales at levels of 25 in 2016/17 and 2017/18, 20 per annum from 2018/19 to 2020/21 and 15 sales per annum from 2021/22 onwards.

## Right to Buy Receipts

The authority is subject to the revised agreement with CLG, effective from 1 April 2013, allowing the retention of some right to buy receipts, subject to a set of specific conditions.

After sharing receipts from the number of sales assumed in the HRA Self-Financing Settlement with CLG in the statutorily agreed proportions, and retaining a proportion of the receipt from any additional sales in recognition of the debt that the authority holds in respect of the asset, the balance of capital receipts is ring-fenced for one-for one (1-4-1) investment.

In line with the retention agreement with CLG, receipts must be spent to fund the delivery of new social housing, with a maximum of 30% of any dwelling being funded via this mechanism.

The balance must be funded from the Council's own resources or through borrowing. There is a 3-year time limit on delivery of the new unit, with the receipt having to be paid to central government, with interest (at 4% above the base rate) if not spent appropriately, incurring an interest cost to the HRA which have far outstripped the interest earned on the receipt whilst held.

In respect of 1-4-1- receipts, it is not currently possible, under the terms of the agreement with CLG, to use the receipt to fund the development of a dwelling that is already receiving any other form of public subsidy, e.g.; Homes and Communities Agency grant.

It is clear from the table at Appendix D, that although no deadline has been breached, the earliest deadlines are now upon us, and a significant amount of new build expenditure will be required in 2016/17 and beyond, in order to avoid a penalty.

In light of the recent announcements about changes in housing policy, which significantly impact the resource available to provide the 70% top up which is required to utilise the retained receipts appropriately, an informed judgement will need to be made at the end of each quarter in respect of what do with the receipts received.

If the authority has insufficient resource to meet the 70% top up funding required, there is the option to pass retained receipts to registered providers, so that they may use them to deliver affordable housing to which the authority would receive the nomination rights. The same time constraints apply in this instance, as does the need for the 70% top up funding.

It is proposed that at the end of each quarter, the Executive Director (Corporate Services), in consultation with the Director of Housing and the Housing Portfolio Holder, makes a decision as to whether right to buy receipts are retained or paid directly over to central government. The decision will take account of the authority's ability to identify the 70% top up funding, or alternatively the potential for the receipt to be passed to a registered provider, with both options maximising the use of the resource and creation of new homes in the locality. Payment of the sums to central government will only occur if there is a considered risk that the resource cannot be utilised appropriately within the required timeframes, thus mitigating the impact of the need to pay receipts over to central government at a later stage, alongside the interest penalty that would be incurred.

# National Housing Policy

## National Rent Setting Policy

As part of the July 2015 budget, the Chancellor announced a significant departure in rent policy, from that which previously applied for local authorities, despite confirmation as part of the previous policy that it would span a ten year timeframe, to give local authorities some certainty and stability over rental income, which would in turn support investment in new build social housing.

The Welfare Reform and Work Bill, which is in passage through the House of Commons, will require both local authority landlords and registered providers to apply a 1% reduction in rent levels across each of the next four years, starting from April 2016. This can be directly compared to the previous assumption of an inflationary increase each year comprising CPI, the Consumer Price Index, assumed to run at 2%, plus an additional 1%.

This change will result in rental income levels that are approximately 4% per annum less than has been assumed in financial planning to date, and will have a significant impact on the authorities ability to invest in the delivery of new build affordable housing.

## Market Rents for Higher Income Households

The July 2015 budget also included announcements of the intention to charge those in existing social housing, with a household income in excess of £30,000 (£40,000 in London), up to a market rent for living in their home, being referred to as 'Pay to Stay'.

Although local authorities will be expected to collect the higher rent levels, they will not keep any additional revenue generated, instead being required to pay the differential over to central government. Other registered providers will be able to retain the revenue from the higher rents charged.

The draft Housing and Planning Bill, which was released in October 2015, indicates that the regulations that will surround this bill will include;

- Definitions of high income, household and household income making reference to how these will be verified
- Power for local authorities and registered providers to be able to obtain income details
- The ability for HMRC to share relevant income data with local authorities and registered providers
- Power for local authorities and registered providers to be able to increase rents to these levels
- The ability for a requirement that local authorities make payment to the Secretary of State based upon an estimate of the additional revenue that will be generated by this change

There are significant concerns about how this policy will be introduced, with questions around affordability for residents, the reference period against which earnings will be measured, how any taper for earnings above £30,000 may be implemented, and how the changes may impact housing benefit. The challenges around how the income data will be gathered, verified and recorded and how the resulting variable rents will then be charged and recovered is being considered by officers in preparation for this change.

A government consultation in respect of the implementation of this proposal is available for response until 20th November 2015, after which detailed guidance is anticipated to follow.

## Mandatory Disposal of High Value Housing Stock

In advance of the June 2015 elections, proposals were released which suggested that local authorities should be required to sell any property that is valued in the top third for the area, on the open market at the point at which it becomes void. The policy, referred to as RTB2, assumed the proceeds from the sale of these assets was intended to fund the ability for right to buy to be extended to tenants of all registered housing providers.

The draft Housing and Planning Bill 2015 provides further detail as to how this policy is intended to be implemented. A payment to the Secretary of State, under a local authority specific determination, is anticipated in respect of a sum derived from an estimate of the high value property which may become vacant in any year. It could therefore be interpreted from this that a local authority may have some discretion over which assets it chooses to dispose of to make payment to central government, but this is not explicit. Concerns exist around the timing of the payments that may fall due under any determination, particularly if this is in advance of the sale of assets to which the determination formula relates.

There is allowance in the draft bill, for the Secretary of State to enter into an agreement with a local authority to reduce the amount that the authority is required to pay in order to provide, or facilitate the provision of, housing.

For financial planning purposes, an initial assumption that approximately 1.8% of the housing stock will need to be sold each year has been made, which is representative of just under 100 properties per annum at the outset. This assumption may need to be significantly amended as further information is made available, as it is based upon early estimates of what might constitute high value, in the absence of any detail at this stage.

# Welfare Reforms

The Welfare Reform Act 2012 introduced a number of changes to Housing and other Benefits.

In addition to the impact on tenants as a result of the removal of the spare room subsidy and the introduction of the benefit cap, housing related costs will shortly begin to be incorporated into Universal Credit.

Initially it will apply to working age tenants, starting with new claims for single job seeker claimants. For South Cambridgeshire residents this will start with new unemployed claimants claiming out of work job benefits from 29 February 2016 receiving Universal Credit with a housing costs element rather than Housing Benefit. This will affect only a small number of claims in the first instance. The timetable for rolling out to couples, those with families and those who are unable to work due to disability is not yet known.

The intention with Universal Credit is that residents will be paid directly, and will receive calendar monthly payments, in arrears, administered centrally by the DWP. Universal Credit will always be calculated based on a 52 week year. Working age claimants will not receive housing support through Universal Credit if they live in certain specified accommodation types. Support will continue for these people through Housing Benefit. Pensioners will not claim Universal Credit but will continue to receive Housing Benefit, calculated locally.

The full impact of these reforms for the Housing Revenue Account remains unquantifiable at present.

# Section 3
## Revenue Resources – Rent and Other Income

# Rent Arrears and Bad Debt Provision

Rent collection performance locally remains good, with over 98% of the value of rent due, collected in 2014/15.

The year-end position in respect of rent debt (as recorded in the rent system) is summarised in the table below:

| Financial Year End | Value of Year End Arrears (Current Tenants) | Current Tenant Arrears as a Percentage of Gross Debit Raised in the Year | Value of Year End Arrears (Former Tenants) |
|---|---|---|---|
| | | | |
| 31/3/2011 | £279,970 | 1.23% | £64,190 |
| 31/3/2012 | £252,040 | 1.00% | £65,429 |
| 31/3/2013 | £279,776 | 1.05% | £67,244 |
| 31/3/2014 | £316,922 | 1.12% | £76,767 |
| 31/3/2015 | £328,376 | 1.13% | £98,954 |

Improving and maintaining the performance with regard to the collection of rent income is key in the delivery of the Housing Revenue Account Business Plan, particularly in light of the impending changes as a result of Welfare Reforms.

Performance in the collection of current tenant debt was broadly maintained between 2013/14 and 2014/15, despite the ongoing impact for residents of both the social sector size criteria reduction in housing benefit and the benefit cap.

There is a need to focus on ensuring that former tenant arrears do not continue to increase, where the value has steadily increased over the last 3 years. Work is undertaken to either actively recover, or a last resort, to write off, these debts. Provision is made in the Housing Revenue Account to write off 95% of former tenant debt, but a decision to do this is not taken until all avenues for collection have been exhausted.

The position in respect of rent arrears as a whole is anticipated to worsen during 2016/17, with the introduction of Universal Credit, with pilot authorities seeing a marked increase in their level of rent arrears.

Taking the information above into consideration and assuming the need to collect rent directly from more residents in 2016/17, a level of 0.5% of the rent due, broadly equivalent to an annual contribution to the bad debt provision of £140,000 is assumed. Further consideration, as part of the 2016/17 budget process, will need to be given to whether this should be increased in light of the experience of the some of the authorities with earlier timetabled go live dates for direct payment, where these authorities experienced a drop in collection levels from approximately 99% to 95%, with the need to provide for the difference.

At 31 March 2015, the provision for bad debt stood at £300,000, representing 70% of the total debt outstanding.

# Void Levels

The value of rent not collected as a direct result of void dwellings in 2014/15 was £416,997 as reported in the Local Authority Housing Statistics return, representing a void loss of just under 1.5% against rent due.

Void levels remain relatively low in 2015/16 to date, and on an ongoing basis, an assumption of 1.1% voids in general housing is considered prudent, recognising that void levels in 2014/15 may have included some dwellings which are no longer available for letting.

# Rent Restructuring

Rent restructuring, which was designed to ensure consistency in rent levels for all social housing tenants irrespective of landlord by introducing a formulaic target rent for each property, is still the prescribed method of calculation for social housing rents, although recent changes in Government policy will overlay this base formula, and will constrain our ability to charge rent restructured rents in many instances.

Although government guidelines have been followed in setting rents, some of the constraints imposed over the last 13 years mean that actual rents charged locally, are still considerably lower than the target rents across the housing stock as a whole.

Since April 2015, the gap between target and actual rents has only been closed at the point at which a property becomes vacant, when the rent is expected to be moved directly to the target rent level, taking many years for the housing stock as a whole to reach target levels.

The average weekly target rent at this point in 2015/16 across the housing stock, according to the rent system, is £109.59, with the average actual rent charged being £102.54. The average actual rent is therefore representative of 93.6% of the average target rent, with only 23.5% of the housing stock being charged at target rent levels.

The gap between actual and target rent levels equates to an annual loss of income of approximately £1,980,000 across the HRA, compared with the income assumption in the HRA Self-Financing Debt Settlement, where convergence was anticipated before now.

# Rent Policy and Rent Setting

As identified in Section 2, National Housing Policy, significant changes are being made that will impact rent setting policy from April 2016.

These changes include:

- The instruction that social housing rents must be reduced by 1% in real terms in each of the next 4 years, beginning in April 2016, which compares to the 3% per annum increase that has previously been assumed. This change will be imposed through legislation incorporated into the Welfare Reform and Work Bill 2015

- The assumption that all households with annual incomes in excess of £30,000 (£40,000 in London) will be required to pay up to market rent levels, with the increased income collected by local authorities as a result of this change being payable to central government. This is anticipated to be effective from April 2017.

The financial impact of an imposed rent reduction of 1% per annum for the next four years has a significant financial impact on the HRA, and its ability to invest, particularly in the creation of new homes.

The estimated loss of rental income over the next four years based upon assumptions made when the budget was announced is:

| Year | Estimated Rent Loss (£) | Cumulative Rent Loss (£) |
|---|---|---|
| | | |
| 2016/17 | 1,140,264 | 1,140,264 |
| 2017/18 | 2,297,672 | 3,437,936 |
| 2018/19 | 3,473,965 | 6,911,901 |
| 2019/20 | 4,672,727 | 11,584,628 |

From 2019/20 there will be the need to have incorporated a base reduction in assumed rental income of £4,673,000 per annum on an ongoing basis, assuming that rent increase are returned to a level of CPI plus 1% following the four year national rent reduction promise.

For the purposes of business planning, the view is being taken that rent increase will be re-introduced at current levels after the four year rent reduction period, and although this view is supported by professionals in the housing advisory sector, there is no guarantee that it will be the case.

An amendment to the legislative changes being made as part of the Welfare Reform and Work Bill 2015 will allow the transition of void properties directly to target rent, less the 1% rent reduction applicable in each year. This assumption has been incorporated into our financial planning.

The requirement to charge rents at up to market levels for all households who earn in excess of £30,000 per annum is expected to have a significant impact on tenants locally, and in turn the

HRA. Central government expects any additional rental income received to be paid over to them, recognising a reduction to allow for the costs that the local authority will pick up in administering the new scheme, which will be hugely labour intensive. There is also potential for a resulting increase in rent arrears and bad debts, where tenants earning not much more than the £30,000 threshold find it impossible to meet the costs of living once they incorporate a South Cambridgeshire market rent. A taper is being consulted upon in a attempt to mitigate this in some way.

A government consultation was issued on 9th October 2015, closing on 20th November 2015. The consultation requests views as to how thresholds for a taper might be applied, whether the starting threshold should be set in line with housing benefit eligibility and asks for the local authority's estimate of the administrative costs associated with the scheme.

Following the consultation, and once the bill has been passed, detailed guidance is anticipated, which will allow the authority to better quantify the impact of the impending change in legislation.

# Section 4
## Capital - Existing Stock and New Build

## Stock Condition / Decent Homes

The authority holds stock condition data for its housing stock, which is updated on a continual basis.

The housing service reported achievement of the decent homes standard in the housing stock as at 31 March 2015 at 91.5%, compared with 98.3% achieving the desired standard at 31 March 2014. There were 449 properties that were considered to be non-decent (in addition to refusals), with another 155 anticipated to become non-decent during 2015/16.

## Stock Investment

In addition to investment in the housing stock to meet the decency standard, the authority invests a considerable sum in respect of energy conservation initiatives. These works go over and above that required by decent homes, and have included works such as external wall insulation, solar energy initiatives, renewable heating sources, air source pumps and high heat retention storage systems.

There is also investment, as expected nationally, in adapting the housing stock for tenants with a disability.

The level of investment in the housing stock, particularly that which falls outside of the decent homes standard, will need to be fully reviewed as part of the 2016/17 budget and beyond, in an attempt to ensure that the authority is able to set a balanced budget for the HRA, whilst maximising any resource available to increase the supply of affordable housing.

# New Build & Re-Development

## General Approach

Following the introduction of self-financing for the HRA in April 2012, the authority was in a financial position to be able to either set-aside sufficient resource to redeem housing debt, or alternatively to re-invest a proportion of this in new build housing, allowing the authority to replace the revenue steam to the HRA, that is lost through right to buy.

A budget of £4,500,000 per annum was included in the capital plan to allow for a programme of new build affordable housing.

## New Build Schemes in Progress or in the Pipeline

There are a number of new build schemes which have been progressed, either to the point that they are on site, are in contract, or have been through consultation and / or the planning process and are therefore considered to be committed to in some way.

The table below details the current positon in respect of these schemes, identifying the scheme, the indicative costs, and the stage in the process which has been reached:

| Scheme | Status | Estimated Social Housing Units | Indicative Scheme Cost |
|---|---|---|---|
| Fen Drayton Road, Swavesey | On Site | 20 | 2,954,320 |
| Horseheath Road, Linton | On Site | 4 | 494,550 |
| Hill Farm, Foxton | Tender Stage | 15 | 2,246,660 |
| Robinson Court, Gamlingay | Planning Submission | 14 | 2,237,370 |
| Wilford Furlong, Willingham | Master Planning Stage | 15 | 659,940 |
| Balsham | Offer Made to Developer | 14 | 1,734,000 |
| **Total** | | **82** | **10,326,840** |

The above schemes all deliver new provision of affordable housing and as such will be eligible for 30% of the scheme to be funded using retained right to buy receipts, with the exception of the Gamlingay site, which is a re-development scheme and where the new homes will replace older housing which is no longer considered fit for purpose.

Funding constraints now mean that the anticipated £4,500,000 of annual investment in new build housing will no longer be possible.

# Self-Build Vanguard

Following South Cambridgeshire District Council being awarded the status as a Self-Build Vanguard pilot authority, work is underway to identify and prepare parcels of land that provide self-build opportunities.

To facilitate the upfront investment that will be required on each site, before the sale of any plot can take place and the resulting capital receipt can be realised, a budget of £150,000 has been included in the Housing Capital Plan in 2015/16. It is anticipated that this budget will be rolled forward if not fully utilised by 31st March 2016.

# Housing Development Agency and City Deal

Following success in the City Deal process, on a Greater Cambridgeshire basis, in respect of transport and infrastructure projects, some City deal pump-prime funding was approved to help us and our City Deal partners to deliver additional affordable homes promised alongside the government investment in infrastructure.

It was recently agreed, that jointly with our City Deal partners Cambridge City Council and the County Council, a Housing Development Agency should be created.

The new company will initially take the form of a shared service, bringing together the small Development Teams in both Cambridge City Council and South Cambridgeshire District Council.

The Housing Development Agency is being set up on the basis that once created using the pump-prime funding from the City Deal project; the company will be self-funded in the way of the development fees that will be charged for each scheme delivered.

However, it is not clear at this stage, how the recent housing policy changes for the Housing Revenue Accounts at both local authorities, will impact the financial viability of the newly proposed entity.

# Section 5
Summary and Conclusions

# HRA Budget Strategy

## The Budget Process

The HRA budget process for 2016/17 will need to incorporate the authority's response to the proposed changes in national housing policy as they unfold. The HRA will continue to be considered in the context of cash limited budgets, with consideration given to where savings can be identified to meet both known and mooted financial pressures.

In light of the changes in housing policy nationally, consideration will need to be given to whether there is still the ability to invest in new build affordable housing. Early modelling of the impact of the changes in national housing policy indicates that there will no longer be the ability to deliver any new homes, unless savings are sought elsewhere across the housing service and / or new ways of providing new homes are sought.

## Approach to HRA Savings

For 2016/17 and beyond, a significant challenge is posed, with a savings target being driven by the need to offset a loss of rental income in 2016/17 of an estimated £1,140,260 due to the requirement to reduce rents by 1% for four years, initially from April 2016. Previous financial planning has not incorporated any assumed savings in controllable expenditure.

Previous financial plans have included the assumption that the authority sets-aside resource for the repayment of housing debt, or alternatively to allow for this resource to be re-invested in the provision of new homes.

One of the key challenges for 2015/16 and beyond, remains the need to identify sufficient resource for investment in new build housing to ensure that the authority can appropriately re-invest existing, and continue to retain and re-invest, right to buy receipts. This challenge is now exacerbated by the anticipated loss of rental income, resulting in the potential, in the worst case scenario for retained right to buy receipts to need to be paid over to CLG, with interest, currently at 4.5%, calculated from the quarter in which they were originally received.

For the 2016/17 budget process, consideration will be give to identifying immediately available savings, in an attempt to mitigate the reduction in rental income and maximise the amount of immediate resource available for investment in new build housing. This will allow the authority to either match fund existing retained right to buy receipts with the 70% top up required, or alternatively to explore passing them to a registered provider, only paying them to CLG as a last resort.

A longer-term approach to identifying savings across the HRA and Housing Capital Programme will be taken during 2016/17, with a review of the Housing Service as a whole being conducted. The level of capital investment in the housing stock will be reviewed over the longer term as part of this exercise.

# Base Assumptions

In order to update the Housing Revenue Account Business Plan, the assumptions included in the base plan have been revisited, and confirmed or amended as appropriate in the light of any more up-to-date intelligence and information.

Assumptions have been amended to take account of the latest announcements in respect of public sector pay, where a 1% cap on pay increase for the next four years is anticipated. An increase in the employer's rate of National Insurance has also been incorporated from April 2016, which more than offsets any saving realised from the cap on public sector pay.

The base financial assumptions included in the financial model are included at Appendix A.

Appendix D summarises the anticipated revenue position for the HRA for the period between 2015/16 and 2019/20, based upon inclusion of the amended financial assumptions that form part of the update to the Self-Financing Business Plan.

Appendix F demonstrates the potential impact on the business plan of changes in some of the base assumptions that have been incorporated as part of this review, including the negative impact if rent increases are not returned to the level of CPI plus 1% from 2020/21 as being assumed.

# HRA MFR Conclusions

Updating the base assumptions for the HRA has had a significantly negative impact on the future financial assumptions for the housing business. The key changes which have contributed to this are the requirements to reduce rents by 1% per annum for four years form April 2016 and the compulsion to sell high value housing stock on the open market when it becomes void.

These two changes alone remove our ability to invest in any new build affordable housing after 2018/19 and stop us being able to set-aside resource to meet repayment of borrowing as previously anticipated.

With the latest financial assumptions incorporated into financial plans, and taking account of the national changes in housing policy, there is limited or no ability to deliver any new build affordable housing after 2018/19. The ability to appropriately utilise the right to buy receipts retained up to the quarter ended 30th September 2015 will be dependent upon either identifying savings elsewhere in the HRA or passing the receipts to a registered provider for re-investment.

Appendices D and E provide a worked example of the position for the HRA up to 2019/20 with the latest assumptions incorporated, and with all new build removed after that which we are committed to, as detailed in Appendix C.

With these assumptions, it is not possible to set a balanced HRA revenue budget from 2020/21 onwards and there is no potential to set-aside resource to redeem HRA debt, with the debt cap breached in year 16 and the HRA in deficit by £108m by year 30.

It is therefore imperative that we consider reductions in future spending, with the need to review the Housing Service and the way in which services are delivered, including proposals to investigate the following, with a view to reducing costs from 2017/18 onwards:

- Identify savings in housing services, particularly considering discretionary areas of investment or alternatively explore areas of income generation.

- Exploring the extension of shared services to include; a broader shared housing service with Cambridge City Council and possibly other local authorities for strategic housing services, which would reduce management costs further and identify other possible efficiencies.

- Review the level of investment in the existing housing stock, considering the level of basic decent homes investment against the level of investment currently funded, with a view to reducing expenditure.

- Recognising that any new build programme in the future will need to be developed considering alternative delivery models, for example mixed tenure, as reliance on HRA surpluses to fund a new build programme will no longer be possible.

# Appendix A

## Business Planning Assumptions

| Key Area | Assumption | Comment |
|---|---|---|
| General Inflation (CPI) | 1.4%, 1.8%, 1.9%, 1.9% then 2% | General inflation on expenditure included, rising to 2% (Based upon government projections for CPI) |
| Capital Inflation | 4.4%, 4.8%, 4.9%, 4.9%, then 3% ongoing | Real increase above CPI of 3% for 4 years, then reverting to 1% above CPI from 2020/21. |
| Debt Repayment | Set-aside to repay debt as resource allows | Assumes set-aside to repay debt as loans reach maturity dates, with any surplus is re-invested in income generating assets. |
| Capital Investment | Partial Investment Standard | Base model assumes a partial investment standard in the housing stock, compared with a basic decent homes standard. This will be reviewed again during 2016/17. |
| Pay Inflation | 1.3% Pay Progression plus:<br>2016/17 – 1.0%<br>2017/18 – 1.0%<br>2018/19 – 1.0%<br>2019/20 – 1.0%<br>2% ongoing | Assume allowance for increments at 1.3%. Pay inflation for four years from 2016/17 limited to 1% reflecting recent Government guidance, and a return to 2% thereafter, reflecting economic recovery. Increased National Insurance contribution rates have been incorporated from April 2016. |
| Employee Vacancy Allowance | £50,000 | Employee budgets assume a vacancy allowance of £50,000 per annum. |
| Rent Increase Inflation | -1% from 2016/17 for 4 years, then 3% | Rent decreases of 1% per annum in line with government guidelines from 2016/17 to 2019/20, then CPI plus 1%. Assume CPI in preceding September is as above. |
| Rent Convergence | Voids Only | Ability to move to reduced target rent achieved only through movement of void properties directly to target rent. |
| External Lending Interest Rate | 0.6% | Interest rates based on latest market achievement. |
| Internal Lending Interest Rate | 0.6% | Assume the same rate as anticipated can be earned on cash balances held, so as not to detriment the General Fund over the longer term. |
| External Borrowing Interest Rate | 4% | Assumes additional PWLB borrowing at a rate of 4%. Current rate for 30 years is 3.66%. Retain 4% for prudence. |
| Internal Borrowing Interest Rate | 4% | Assume the same rate as external borrowing to ensure flexibility in choice of borrowing route. |
| HRA Minimum Balances | £2,000,000 | Maintain HRA minimum balance at £2,000,000, recognising risks in a Self-Financing environment. |
| Right to Buy | 25 for 3 years, 20 | Housing Policy changes expected to sustain a higher level of |

| Key Area | Assumption | Comment |
|---|---|---|
| Sales | for 3 years, then 15 sales ongoing | activity in the short-term. Assume 25 for 2015/16, reducing by 5 sales per annum from 2018/19, until 15 are assumed ongoing from 2021/22. |
| Right to Buy Receipts | Settlement right to buy receipts excluded and assumed one-for-one receipts included as required. | Debt settlement receipts excluded as assumed to fund General Fund housing capital expenditure. Anticipated one-for one receipts included, but only as they are drawn down to fund budgeted eligible capital schemes. Debt repayment proportion reported as at 1/4/2015 and assumed available for future use. |
| Void Rates | 1.1% | Assumes 1.1% per annum from 2016/17 onwards. |
| Bad Debts | 0.35% for 2015/16, then 0.5% ongoing | Bad debt provision of 0.35% increased to 0.5% to reflect the requirement to collect 100% of rent directly for new benefit claimants, when Universal Credit begins implementation in 2016. |
| Debt Management Expenses | £27,540 per annum | Internal treasury management activity recharged to the HRA. |
| 5-Year New Build Programme | 82 Units | Assumes delivery of the existing commitments in the new build programme. If previous new build budget of £4.5m per annum continued to be available this would increase by an estimated 82 units. |
| Savings Target | £0 | 2016/17 target currently included at nil. Consideration to be given to the need to offset loss of rental income. Similar pressure to reduce spending will exist for the next 4 years. |
| Responsive Repairs Expenditure | Adjusted pro rata to stock changes | An assumption is made that direct responsive repair expenditure is adjusted annually in line with any change in stock numbers. |
| Policy Space | £0 | No policy space incorporated at present, but if included would recognise a desire to be able to facilitate strategic investment and respond to pressures. To be reviewed again as part of 2016/17 HRA budget. |
| Service Reviews | On case by case basis | Service review outcomes assumed to deliver to the HRA as indicated in the review business case. |

# Appendix B

## Retained 1-4-1 Right to Buy Receipts

| Quarter date for Receipt | Retained 1-4-1 Receipt Value (Per Quarter) | Retained 1-4-1 Receipt Value (Cumulative) | Amount of New Build Expenditure Required (Cumulative) | Deadline for Receipt to be spent on New Dwelling | Qualifying Spend by Deadline (Cumulative) | Retained 1-4-1 Receipt Spent (Cumulative) | Balance of Retained 1-4-1 Receipts to be Spent or Paid to CLG (Cumulative) | Further New Build Spend Required by Deadline (Cumulative) |
|---|---|---|---|---|---|---|---|---|
| 30/06/2012 | 273,807.59 | 273,807.59 | 912,691.97 | 30/06/2015 | 4,566,213.18 | 1,369,863.95 | 0.00 | 0.00 |
| 30/09/2012 | 110,185.59 | 383,993.18 | 1,279,977.27 | 30/09/2015 | 5,334,849.24 | 1,600,454.77 | 0.00 | 0.00 |
| 31/12/2012 | 786,867.59 | 1,170,860.77 | 3,902,869.23 | 31/12/2015 | | | 0.00 | 0.00 |
| 31/03/2013 | 257,177.59 | 1,428,038.36 | 4,760,127.87 | 31/03/2016 | | | 0.00 | 0.00 |
| 30/06/2013 | 180,159.83 | 1,608,198.19 | 5,360,660.63 | 30/06/2016 | | | 7,743.42 | 25,811.39 |
| 30/09/2013 | 408,259.67 | 2,016,457.86 | 6,721,526.20 | 30/09/2016 | | | 416,003.09 | 1,386,676.96 |
| 31/12/2013 | 405,074.37 | 2,421,532.23 | 8,071,774.10 | 31/12/2016 | | | 821,077.46 | 2,736,924.86 |
| 31/03/2014 | 1,012,895.75 | 3,434,427.98 | 11,448,093.27 | 31/03/2017 | | | 1,833,973.21 | 6,113,244.03 |
| 30/06/2014 | 190,149.46 | 3,624,577.44 | 12,081,924.80 | 30/06/2017 | | | 2,024,122.67 | 6,747,075.56 |
| 30/09/2014 | 542,412.66 | 4,166,990.10 | 13,889,967.00 | 30/09/2017 | | | 2,566,535.33 | 8,555,117.76 |
| 31/12/2014 | 491,350.40 | 4,658,340.50 | 15,527,801.67 | 31/12/2017 | | | 3,057,885.73 | 10,192,952.43 |
| 31/03/2015 | 417,089.12 | 5,075,429.62 | 16,918,098.73 | 31/03/2018 | | | 3,474,974.85 | 11,583,249.49 |
| 30/06/2015 | 417,483.31 | 5,492,912.93 | 18,309,709.77 | 30/06/2018 | | | 3,892,458.16 | 12,974,860.53 |
| 30/09/2015 | 527,469.65 | 6,020,382.58 | 20,067,941.93 | 30/09/2018 | | | 4,419,927.81 | 14,733,092.69 |

# Appendix C

## New Build / Re-Provision Investment Committed Schemes Cashflow

| New Build / Re-Development Scheme | Prior Year Actuals | 2015/16 Budget | 2016/17 Budget | 2017/18 Budget | 2018/19 Budget | 2019/20 Budget | Total Budget |
|---|---|---|---|---|---|---|---|
| | £'0 | £'0 | £'0 | £'0 | £'0 | £'0 | £'0 |
| **New Build / Re-Development / Acquisition Cash Expenditure (Net of Developer's Cross Subsidy / Notional Land Value)** | | | | | | | |
| Empty Homes Acquisition | 3,716,646 | 189,390 | 0 | 0 | 0 | 0 | 3,906,036 |
| Land Acquisition | 386,675 | 0 | 0 | 0 | 0 | 0 | 386,675 |
| Linton, 4D Chalklands | 374,432 | 0 | 0 | 0 | 0 | 0 | 374,432 |
| Foxton, 13D Hill Farm | 38,558 | 169,854 | 2,038,246 | 0 | 0 | 0 | 2,246,658 |
| Swavesey 20D | 49,902 | 2,314,070 | 204,000 | 0 | 0 | 0 | 2,567,972 |
| Linton, 4D Horseheath Rd | 0 | 339,150 | 155,400 | 0 | 0 | 0 | 494,550 |
| Robinson Court Re-provision | 22,710 | 0 | 447,470 | 1,789,900 | 0 | 0 | 2,260,080 |
| Balsham | 0 | 0 | 1,300,500 | 433,500 | 0 | 0 | 1,734,000 |
| Willingham, Wilford Furlong - Infill | 0 | 0 | 0 | 0 | 659,940 | 0 | 659,940 |
| **Total New Build/ Re-Development / Acquisition Expenditure** | **4,588,923** | **3,012,464** | **4,145,616** | **2,223,400** | **659,940** | **0** | **14,630,343** |
| | | | | | | | |
| **Retained Right to Buy Funding** | | | | | | | |
| Empty Homes Acquisition | (1,114,994) | (56,817) | 0 | 0 | 0 | 0 | (1,171,811) |
| Land Acquisition | (116,003) | 0 | 0 | 0 | 0 | 0 | (116,003) |
| Linton, 4D Chalklands | (112,329) | 0 | 0 | 0 | 0 | 0 | (112,329) |
| Foxton, 13D Hill Farm | (11,567) | (50,956) | (611,474) | 0 | 0 | 0 | (673,997) |
| Swavesey 20D | (14,971) | (694,221) | (61,200) | 0 | 0 | 0 | (770,392) |
| Linton, 4D Horseheath Rd | | (101,745) | (46,620) | 0 | 0 | 0 | (148,365) |
| Balsham | 0 | 0 | (195,075) | (65,025) | 0 | 0 | (260,100) |

| New Build / Re-Development Scheme | Prior Year Actuals | 2015/16 Budget | 2016/17 Budget | 2017/18 Budget | 2018/19 Budget | 2019/20 Budget | Total Budget |
|---|---|---|---|---|---|---|---|
| | £'0 | £'0 | £'0 | £'0 | £'0 | £'0 | £'0 |
| Willingham - Wilford Furlong - infill | 0 | 0 | 0 | 0 | (98,991) | 0 | (98,991) |
| **Total Retained Right to Buy Funding** | **(1,369,864)** | **(903,739)** | **(914,369)** | **(65,025)** | **(98,991)** | **0** | **(3,351,988)** |
| | | | | | | | |
| **Total to be funded from HRA Resources (DRF) and Non-RTB Capital Receipts** | **(3,219,059)** | **(2,108,725)** | **(3,231,247)** | **(2,158,375)** | **(560,949)** | **0** | **(11,278,355)** |
| **Total HRA Borrowing** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

# Appendix D

## HRA Indicative Summary Forecast 2015/16 to 2019/20

| Description | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
|---|---|---|---|---|---|
| Income | | | | | |
| Rental Income (Dwellings) | (28,600,000) | (27,646,520) | (27,038,670) | (26,364,010) | (25,692,300) |
| Rental Income (Other) | (370,000) | (375,180) | (381,930) | (389,190) | (396,580) |
| Service Charges | (875,490) | (886,980) | (901,950) | (918,040) | (934,440) |
| Other Income | (452,240) | (454,450) | (457,340) | (460,440) | (169,500) |
| **Total Income** | **(30,297,730)** | **(29,363,130)** | **(28,779,890)** | **(28,131,680)** | **(27,192,820)** |
| Expenditure | | | | | |
| Supervision & Management | 4,982,990 | 5,071,760 | 5,196,560 | 5,306,550 | 5,419,600 |
| Repairs & Maintenance | 5,354,890 | 5,462,550 | 5,568,570 | 5,669,340 | 5,756,830 |
| Net Depreciation – t/f to Major Repairs Res. | 5,784,100 | 5,834,800 | 8,231,740 | 8,407,870 | 8,567,620 |
| Debt Management Expenditure | 27,540 | 27,930 | 28,430 | 28,970 | 29,520 |
| Other Expenditure | 260,790 | 414,880 | 418,330 | 421,180 | 423,950 |
| **Total Expenditure** | **16,410,310** | **16,811,920** | **19,443,630** | **19,833,910** | **20,197,520** |
| **Net Cost of HRA Services** | **(13,887,420)** | **(12,551,210)** | **(9,336,260)** | **(8,297,770)** | **(6,995,300)** |
| HRA Share of operating income and expenditure included in Whole Authority I&E Account | | | | | |
| Interest Receivable | (54,250) | (115,260) | (116,970) | (109,030) | (91,570) |
| **(Surplus) / Deficit on the HRA for the Year** | **(13,941,670)** | **(12,666,470)** | **(9,453,230)** | **(8,406,800)** | **(7,086,870)** |
| Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance | | | | | |
| Loan Interest | 7,192,800 | 7,188,640 | 7,179,740 | 7,166,730 | 7,157,200 |
| Housing Set Aside / (Use of Reserve) | (1,000,000) | (300,000) | 1,766,250 | (1,127,680) | (1,695,680) |
| Depreciation Adjustment | 0 | 0 | 0 | 0 | 0 |
| Direct Revenue Financing of Capital | 8,003,500 | 5,237,340 | 2,018,000 | 2,340,430 | 1,631,570 |
| **(Surplus) / Deficit for Year** | **254,630** | **(540,490)** | **1,510,760** | **(27,320)** | **6,220** |
| Balance b/f | (3,177,789) | (2,923,159) | (3,463,649) | (1,952,889) | (1,980,209) |
| **Total Balance c/f** | **(2,923,159)** | **(3,463,649)** | **(1,952,889)** | **(1,980,209)** | **(1,973,989)** |

# Appendix E

## HRA Capital Investment Plan (5 year detailed investment plan – assuming halt of new build programme)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Improvements - Existing Stock** | | | | | |
| Water/Drainage Upgrades | 75 | 77 | 78 | 80 | 81 |
| Disabled Adaptations | 800 | 816 | 832 | 849 | 866 |
| Fire and Extreme Weather | 0 | 0 | 0 | 0 | 0 |
| Change of Tenancy - Capital | 600 | 612 | 624 | 637 | 649 |
| Rewiring | 300 | 306 | 312 | 318 | 325 |
| Heating Installation | 2,356 | 2,403 | 2,452 | 2,500 | 2,550 |
| Energy Conservation | 1,500 | 1,530 | 1,561 | 1,592 | 1,624 |
| Estate Roads, Paths & Lighting | 80 | 82 | 84 | 85 | 87 |
| Garage Refurbishment | 123 | 125 | 127 | 130 | 132 |
| Parking/Garages | 80 | 82 | 84 | 85 | 87 |
| Window Replacement | 255 | 260 | 265 | 271 | 276 |
| Re-Roofing | 420 | 428 | 437 | 446 | 455 |
| Full Refurbishments | 700 | 714 | 728 | 743 | 758 |
| Structural Works | 200 | 204 | 208 | 212 | 216 |
| Non-Traditional Refurbishment | 550 | 0 | 0 | 0 | 0 |
| Asbestos Removal | 32 | 33 | 34 | 34 | 35 |
| Kitchen Refurbishment | 700 | 714 | 728 | 743 | 758 |
| Bathroom Refurbishment | 300 | 306 | 312 | 318 | 325 |
| **Total Improvements Existing Stock** | **9,071** | **8,692** | **8,866** | **9,043** | **9,224** |
| **Other Improvements** | | | | | |
| Sheltered Housing and Other Stock | 600 | 235 | 185 | 185 | 132 |
| Flats | 30 | 30 | 30 | 30 | 30 |
| Central / Departmental Investment | 4 | 5 | 5 | 5 | 5 |
| **Total Other Improvements** | **634** | **270** | **220** | **220** | **167** |

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Re-provision of Existing Homes** | | | | | |
| Robinson Court, Gamlingay | 0 | 447 | 1,790 | 0 | 0 |
| Other Re-provision | 1,200 | 753 | -1,040 | 700 | 500 |
| **Total Re-provision of Existing Homes** | **1,200** | **1,200** | **750** | **700** | **500** |
| **HRA Acquisition and New Build** | | | | | |
| Property Acquisition | 190 | 0 | 0 | 0 | 0 |
| Fen Drayton Road, Swavesey | 2,314 | 204 | 0 | 0 | 0 |
| Horseheath Road, Linton | 339 | 155 | 0 | 0 | 0 |
| Hill Farm, Foxton | 170 | 2,038 | 0 | 0 | 0 |
| Balsham | 0 | 1,301 | 434 | 0 | 0 |
| Wilford Furlong,Willingham | 0 | 0 | 0 | 660 | 0 |
| **Total HRA New Build** | **3,013** | **3,698** | **434** | **660** | **0** |
| **Other HRA Capital Spend** | | | | | |
| Shared Ownership Repurchase | 300 | 300 | 300 | 300 | 300 |
| Self-Build Vanguard - Up front HRA Land Assembly Costs | 150 | 0 | 0 | 0 | 0 |
| **Total Other HRA Capital Spend** | **450** | **300** | **300** | **300** | **300** |
| | | | | | |
| **Total HRA Capital Spend** | **14,368** | **14,160** | **10,570** | **10,923** | **10,191** |
| Inflation Allowance for New Build and Other HRA Spend | 0 | 167 | 110 | 323 | 308 |
| **Total Inflated Housing Capital Spend** | **14,368** | **14,327** | **10,680** | **11,246** | **10,499** |
| | | | | | |
| **Housing Capital Resources** | | | | | |
| Right to Buy Receipts | 0 | 0 | 0 | 0 | 0 |
| Other Capital Receipts (Land and Dwellings) | 0 | 0 | 0 | 0 | 0 |
| Major Repairs Reserve | (4,512) | (7,107) | (8,232) | (8,408) | (8,567) |
| Direct Revenue Financing of Capital | (8,004) | (5,237) | (2,018) | (2,340) | (1,632) |
| Other Capital Resources (Grants / Shared Ownership / R&R Funding) | (300) | (300) | (300) | (300) | (300) |
| Retained Right to Buy Receipts | (904) | (1,109) | (130) | (198) | 0 |
| HRA CFR / Prudential Borrowing | 0 | 0 | 0 | 0 | 0 |

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Total Housing Capital Resources** | **(13,720)** | **(13,753)** | **(10,680)** | **(11,246)** | **(10,499)** |
| | | | | | |
| Net (Surplus) / Deficit of Resources | 648 | 574 | (0) | 0 | 0 |
| | | | | | |
| **HRA Capital Balances b/f** | **(1,222)** | **(574)** | **(0)** | **(0)** | **(0)** |
| | | | | | |
| Use of / (Contribution to) Balances in Year | 648 | 574 | (0) | 0 | 0 |
| | | | | | |
| **HRA Capital Balances c/f** | **(574)** | **(0)** | **(0)** | **(0)** | **0** |
| | | | | | |
| **Other Capital Balances (Opening Balance 1/4/2015)** | | | | | |
| | | | | | |
| Major Repairs Reserve | 0 | Fully utilised in 2014/15 | | | |
| Retained 1-4-1 Right to Buy Receipts | (3,706) | Part utilised in 2016/17 to 2018/19, but partially at risk if further top up funding is not identified | | | |
| Right to Buy Receipts for Debt Redemption | (1,065) | Retained for future debt repayment or re-investment | | | |
| **Total Other Capital Balances** | **(4,771)** | | | | |

Note: Generally available capital receipts from the sale of properties under the right to buy as assumed in the self-financing debt settlement, have been excluded on the basis that they are utilised to fund general fund housing capital expenditure, i.e.; Disabled Facilities Grants and Repairs Assistance Grants.

# Appendix F

## Business Plan Key Sensitivity Analysis

| Topic | Business Plan Assumption | Key Sensitivity Modelled | Financial Impact |
|---|---|---|---|
| General Inflation (expenditure only) | General Inflation using CPI rising to 2% for expenditure by 2020/21 | Volatility in the economy could lead to an increase in expenditure inflation, particularly whilst rents increases are non-existent for the next 4 years. Assume CPI for expenditure of 2% immediately and 3% ongoing. | Inability to set a balanced HRA revenue budget from 2020/21 and inability to set-aside resource to redeem debt. HRA in deficit by £157m by year 30. |
| Rents Inflation | 1% reduction for 4 years, then return to CPI plus 1% for remaining 4 years of 10 year rent settlement followed by CPI plus 0.5% | There is no guarantee that there will be the ability to return to previously assumed rent increase if rents are set legislatively, so assume a rent increase of CPI only from 2020/21. | Inability to set a balanced HRA revenue budget from 2020/21 and inability to set-aside resource to redeem debt. HRA in deficit by £163m by year 30. |
| Compulsion to sell | Assumption that all high value voids are required to be disposed of when they become void | Assume that a levy based, formulaic approach reduces the level of payment that is anticipated to central government by 50%. | Debt cap is not breached until year 24. Inability to set a balanced HRA revenue budget from 2036/37. HRA in deficit by £9m by year 30. |

Note: Key sensitivities are modelled independently to demonstrate the financial impact. Combined they would have a cumulative effect.

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