Appendix 1

Version 5
Cabinet and Council

Housing Revenue Account Medium Term Financial Strategy (HRA Business Plan Update)

November 2018

2018/19 to 2047/48

South Cambridgeshire District Council

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South Cambridgeshire
District Council

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Section 1
Introduction and Local Context

Foreword by the Lead Cabinet member for Housing

In the Liberal Democrat administration at South Cambridgeshire District Council, housing is one of our top priorities, and especially good quality housing which is affordable for people to live in, near to where they work.

We have over 2,000 households on our waiting list, so council house-building needs to be a high priority. We have welcomed the government's announcement of the lifting of the borrowing cap on HRA borrowing from 2022 and will work to build capacity to take advantage of that opportunity. We are hoping our bid to raise our borrowing cap by just over £17m to build around 149 more council houses in the next 3 years will be successful, to help us to start ramping up our house-building programme.

Welfare reform has already presented some challenges to us, and we are gearing up to support tenants who will start receiving Universal Credit from October 2018. This will be ramping up gradually, and learning from others' experiences we have rearranged the housing officers so they are well-placed to know their tenants, and plan increases to the staffing as a 'spend to save' initiative.

We have housing stock that is largely energy-efficient and in a good state of repair and we need to keep it in that condition.

I am confident that our staff will rise to the challenges set them by government policy, and we need to give them the tools to do that work.

Councillor Hazel Smith

Lead Cabinet Member for Housing

Background

The Housing Revenue Account (HRA) Medium Term Financial Strategy is one of two updates each year of the original HRA 30-Year Business Plan approved in February 2012, which update the position for the HRA operating in a self-financing environment.

The report allows the review of key assumptions and consideration of any material change, which may necessitate a change in financial strategy, policy or direction of travel for the business, to ensure a financially viable Housing Revenue Account in future years. Both revenue and capital investment is considered, with the impact of any proposed changes on the HRA Business Plan clearly identified. A review of the strategic risks facing the HRA is presented at **Appendix A.** The HRA Medium Term Financial Strategy re-states the budget for the current year (2018/19), highlighting only significant or exceptional in-year changes for approval, reviews and updates financial assumptions and presents updated projections for an extended period, now covering the following 9 years from 2019/20 to 2027/28, in the context of the longer-term financial position.

Savings already made in the Housing Revenue Account, coupled with the impact of updating financial forecasts with the latest business assumptions, deliver a sustainable position for the HRA over the medium-term. It must be noted, however, that the current forecasts have been constructed whilst there are still a number of areas of uncertainty in the housing sector, and before the full impact of welfare reform change is realised. The assumption that the 'sale of higher value voids' levy is deferred until at least April 2020, pending confirmation that legislation will definitely be repealed, has a positive impact on financial forecasts. Financial forecasts will be reviewed again as further information is made available to the authority.

Timetable

Committee dates in the financial planning and budget preparation timetable are shown below:

Date	Task
18 October 2018	Scrutiny and Overview Committee considers HRA Medium Term Financial Strategy, with any amendments incorporated into recommendations to Cabinet
7 November 2018	Cabinet considers HRA Medium Term Financial Strategy, with any amendments incorporated into recommendations to Council
29 November 2018	Council approves HRA Medium Term Financial Strategy
29 January 2019	Scrutiny and Overview Committee considers HRA Budget Setting Report, with any amendments incorporated into recommendations to Cabinet
6 February 2019	Cabinet considers HRA Budget Setting Report, with any amendments incorporated into recommendations to Council
21 February 2019	Council approves HRA Budget Setting Report

Section 2
Housing Stock

Housing and Leasehold Stock

South Cambridgeshire District Council Housing Revenue Account owns and / or manages the following properties, broken down by category of housing provided:

Housing Category	Actual Stock Numbers as at 1/4/2018	Estimated Stock Numbers as at 1/4/2019
General Housing (Incl. use as Temporary Housing)	4,169	4,182
Sheltered Housing	1,056	1,056
Sheltered Housing – Equity Share	78	78
Miscellaneous Leased Dwellings	11	11
Shared Ownership / FTB Dwellings	57	63
Total Dwellings	5,371	5,390

A breakdown of the housing stock by property type, excluding shared ownership and equity share, is demonstrated in the table below:

Stock Category (Property Type)	Actual Stock Numbers as at 1/4/2018	Estimated Stock Numbers as at 1/4/2019
Bedsits	20	20
1 Bed	1,010	1,019
2 Bed	2,280	2,293
3 Bed	1,850	1,841
4 Bed	71	71
5 Bed	1	1
6 Bed	4	4
Total Dwellings	5,236	5,249

Section 3
The National Policy Context and External Factors

External Factors

In reviewing financial assumptions as a pre-cursor to strategic decision making, it is necessary to consider external factors, outside of the control of the organisation and to update financial projections in light of any changes or trends in these areas.

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

Inflation Rates

The base rate of inflation used to drive expenditure assumptions in the HRA financial forecasts is the Consumer Price Index (CPI). The last 12 months has seen an increase in the rate, from 2.6% in June 2017 to 3.1% by November 2017, but with this quickly reducing to a level of 2.4% by April 2018, where it remained in June.

The Office for Budget Responsibility (OBR) is currently still predicting a return to the Bank of England's target level for CPI of 2% in the medium-term, with the decline to this level now expected to be more steep than previously assumed, with the potential for a dip below the 2% level before stabilisation.

The negotiations surrounding the UK leaving the European Union, coupled with changes in government at a national level, make it difficult to accurately predict in which direction this index may actually move in the short or medium term.

With this in mind, forecasts for the rate of base inflation have been amended as part of the Medium Term Financial Review, to 2.2% for 2019/20, 2.1% for 2020/21, then 2% from 2021/22 ongoing (amended from the previously assumed levels of 2.2% for 2019/20, 2.3% for 2020/21 and then 2% on an ongoing basis), to reflect the current view of the Bank of England. This assumption will be revisited again as part of the 2019/20 Budget Setting Report.

Expenditure in respect of building maintenance is inflated in the financial forecasts using the Retail Price Index (RPI), as this is the inflationary measure incorporated into the majority of HRA maintenance contracts.

Over the medium-term RPI runs at an average of 1% above CPI, so for the purposes of financial forecasting, RPI rates of 3.2% for 2019/20, 3.1% for 2020/21 and then 3% ongoing have been adopted to reflect this.

Interest Rates

The Housing Revenue Account is entitled to its proportion of any interest earned on cash balances invested by the authority, with a mix of investments adopted by the Council, including lending to Ermine Street Housing. The Housing Revenue Account proportion includes balances which are revenue or capital in nature. Interest returns currently remain relatively low, with revised interest rate assumptions included in **Appendix B**.

The Housing Revenue Account is already at its borrowing cap, bar a very small amount of notional internal lending to the General Fund, and as a result the level at which the HRA could borrow additional resource, over and above the existing PWLB loan portfolio totalling £205,123,000, has not been relevant.

However, the authority bid for permission to increase its HRA borrowing cap as part of the Ministry of Housing, Communities and Local Government HRA Additional Borrowing Programme, 2019/20 to 2021/22. Subsequent to this, the Prime Minister has confirmed the intention to remove the HRA borrowing cap altogether, with a Determination expected to be formally issued at the end of October 2018 to allow this to happen. The HRA Budget Setting Report in February 2019 will allow the opportunity to review the approach to future borrowing once the borrowing cap has been lifted.

The interest rate used for modelling of the additional borrowing was 2.8%, assuming that funds would be borrowed from the Public Works Loans Board (PWLB).

From the perspective of accounting for the interest due to the HRA for the internal lending to the General Fund, the same rate that would be achieved via lending externally is adopted.

Right to Buy Sales

In 2017/18, 40 right to buy applications were received and recorded, compared with 65 in the previous year. 27 applications were received in the first 6 months of 2018/19. This seems to confirm that interest has slowed and stabilised, leaning towards the lower levels experienced prior to the housing policy changes and reinvigoration of the scheme that increased interest for a period.

In 2017/18, 20 of the applications proceeded to completion of the sale of the property, compared with 33 in 2016/17. In the first 6 months of 2018/19, 7 sales have completed, confirming the view that interest has declined.

It is impossible to accurately predict future sales, although the recent decline in sales and stabilisation in initial interest, coupled with uncertainty in the economy indicates it may be prudent to retain the assumption of reducing sales, with 20 sales from 2018/19 for 3 years from 2018/19, then reducing to 15 sales per annum from 2021/22 onwards.

Right to Buy Receipts

Still subject to an agreement with CLG allowing the retention of an agreed proportion of right to buy receipts, subject to a set of specific conditions, the authority holds a significant sum for re-investment. Receipts must currently be spent, within 3 years, to fund the delivery of new social housing, with a maximum of 30% of any dwelling being funded via this mechanism, with the balance funded from the Council's own revenue resources and borrowing if permission is granted for this as part of the HRA Borrowing Programme 2019/20 to 2021/22 or the borrowing cap is lifted altogether in the future as indicated in the Prime Minister's speech at the Conservative Party Conference on 3 October 2018.

Whilst held, the capital receipts can be invested by the authority to earn interest in the short-term, but if not spent appropriately within the 3 year time frame, have to be paid over to central government, with 'penalty' interest payable at 4% above the base rate, far exceeding the level of interest that will have been earned in the interim.

The authority is unable to directly utilise capital receipts from the sale of land and other housing assets, Section 106 receipts or other forms of public subsidy as a form of match funding for retained right to buy receipts.

A Ministry of Housing, Communities and Local Government consultation on the use of receipts from right to buy sales was published in August 2018, with response due by 9 October 2018.

The consultation recognises some of the difficulties experienced by local authorities' in appropriately reinvesting right to buy receipts and is consulting upon the following proposals:

- Extending the spending deadline from 3 to 5 years for receipts currently held, whilst retaining the 3 year timeframe for any future receipts received.
- Increasing the level of right to buy receipts which can be used to finance new homes from the current cap of 30%, to 50% in respect of social rented homes, where authorities meet the eligibility criteria for the Affordable Homes Programme and can demonstrate a need for social rented housing over other affordable housing.

- Deter the use of receipts for acquisition of existing market homes by limiting the value of an acquisition to the cost of delivery of a new home as determined by Homes England and the Greater London Authority. This would mean a cap on the value of an acquisition for South Cambridgeshire District Council of £167,000.

- Allowing right to buy receipts to be used to fund shared ownership homes as well as rented.

- Allowing land held by the General Fund to be transferred to the HRA for the delivery of affordable homes at zero value, but with some suggestion a time limit may be imposed on how long the General Fund will have had to hold the land prior to transfer.

- Consideration of changes to allow transfer of receipts to a Housing Company or ALMO (Arm's Length Management Organisation), subject to some constraints.

- Allowing a 3 month 'interest free' window after each quarter to allow authorities to make decisions about whether to retain or pay over receipts.

The authority will respond to this consultation before the 9 October 2018 deadline.

Appendix C summarises the latest position in respect of both receipts held and re-invested. Although a deadline has not yet been breached, there was a need to undertake a number of strategic acquisitions during 2016/17, with more taking place in 2017/18, to ensure that funds are re-invested locally, and not paid to central government with an interest penalty attached.

Although further new build expenditure is planned to ensure that future deadlines can be met, the option to alternatively acquire existing open market homes still exists currently, to ensure that investment is made well in advance of the prescribed deadlines.

The option to pass retained receipts to registered providers still remains, with the registered provider delivering affordable housing to which we would receive nomination rights. The same time constraints apply in this instance, as does the need for the 70% top up funding.
At the end of each quarter, the Executive Director (Corporate Services) continues to make a decision as to whether right to buy receipts are retained or paid directly over to central government. The decision takes 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.

The additional capital spending required and the resulting funding sources identified, is then built into the Housing Capital Investment Plan at the next available opportunity.

National Housing Policy

National Rent Setting Policy

The legislation approved as part of the Welfare Reform and Work Bill 2015, requires local authority landlords and registered providers to continue to apply a 1% rent reduction for the final year of 4 years, from April 2019.

After this, the authority is expected to return to the previous national rent policy of increases at CPI plus 1% per annum for a period of 5 years.

In respect of affordable rents, the government has required local authorities to determine what 80% of the market rent would be for a property, and to apply the 1% reductions to this rent level, with the resulting sum being the maximum which a local authority can charge at the end of the 4 year period.

For those properties still charged at the transitional social rents, which are well below target social rent levels, the authority is still expected to increase rents only in void properties to achieve convergence, recognising that the target rents will still reduce by 1% for a further year.

Housing Green Paper

The Ministry of Housing, Communities and Local Government published a green paper 'A new deal for social housing' in August 2018, with responses to the consultation to be submitted by 6 November 2018.

The five key principles in the document are:

- a safe and decent home which is fundamental to a sense of security and our ability to get on in life;
- improving and speeding up how complaints are resolved;
- empowering residents and ensuring their voices are heard so that landlords are held to account;
- tackling stigma and celebrating thriving communities, challenging the stereotypes that exist about residents and their communities; and,
- building the social homes that we need and ensuring that those homes can act as a springboard to home ownership.

The consultation considers a vast number of points, including:

- The introduction of further safety measures in social housing, reviewing the decent homes standard and engaging residents in how to ensure homes are safe
- Improving mediation for residents, ensuring access to the right advice and support, reviewing process for the handling of complaints.
- Reviewing performance reporting requirements and regulation, enhancing resident engagement / leadership, providing residents with more choice.
- Tackling stigma in social housing, providing good neighbourhood management, tackling anti-social behaviour.
- Striking a balance between funding housing associations to *deliver* new homes, and increasing borrowing caps to allow local authorities' to build more, boost community led housing, increase supply of new homes by providing certainty over longer-term funding, support the development of more share ownership homes.

At the Conservative Party Conference, the Prime Minister's closing speech on 3 October 2018 confirmed an intention to abolish the borrowing cap for local authorities' to ensure the delivery of more homes and help tackle the housing crisis.

Mandatory Disposal of Higher Value Housing Stock

The Housing and Planning Act 2016 allows Central Government to choose to impose a financial levy on stock owning authorities in respect of the assumed sale of higher value vacant housing stock. This would require secondary legislation to be passed before the policy could be implemented.

Any levy would be expected to vary for each financial year, with the value arrived at on a formulaic basis, after a period of consultation with local authorities, not unlike the old housing subsidy system., it is anticipated that the authority may have some discretion over which assets it disposes of, in order to meet the levy, with periodic payments due throughout each financial year.

The Housing Green Paper 'A new deal for social housing', indicates a clear commitment from government to revoke the legislation that would allow the levy to be introduced, with the following statement made:

'Therefore to increase councils' confidence to plan ambitious house building programmes, we are confirming in this Green Paper that the Government will not bring the Higher Value Assets provisions of the Housing and Planning Act 2016 into effect. We will look to repeal the legislation when Parliamentary time allows'.

As a result of this, it is not considered appropriate to retain the current assumption that the authority will be required to dispose of assets to meet a levy with effect from April 2019. However, as the announcement currently forms part of a green paper consultation document, and the legislation is yet to be repealed, the assumption has been deferred until April 2020, with our financial modelling now assuming that we do not begin to hold any voids until October 2019. This assumption will be reviewed, and hopefully removed, after the outcome of the green paper is published and the repeal of the legislation is confirmed.

The HRA Medium Term Financial Strategy has therefore been constructed on the assumption that the compulsion to sell would require the equivalent of approximately 1.8% of the housing stock each year to be disposed of, representative of approximately 100 properties per annum initially, but with payment further deferred until 2020/21, pending confirmation of the outcome of the green paper.

Scenario modelling has been undertaken to demonstrate the impact on the HRA of the abolition of this policy, as is now hoped.

Welfare Reforms

Universal Credit

Universal Credit full digital service is being rolled out at Cambridge Job Centre from 17th October 2018. Recent changes mean that Universal Credit claimants in temporary housing will receive housing cost support in housing benefit and not Universal Credit. Additionally, a two week overlap for Universal Credit claimants moving from Housing Benefit was also introduced to mitigate the impact of the change.

South Cambridgeshire District Council continues to work with partners and local Jobcentre Plus to provide Personal Budgeting Support. Whilst there has been low take up via the current referral process, Universal Credit customers who reside in either Cambridge or South Cambridgeshire will be able to access CAB budgeting advice at Cambridge Job Centre following the introduction of UC full digital service. We are also working with other partners to support digital inclusion and access to support the new Universal Credit claiming process.

Benefit Cap

The project to manage the impact of the reduced Benefit Cap is progressing well and is continuing to support those affected. . The Council is contacting those potentially affected, with a number of these households having been identified as receiving incomes that exempt them from the cap or having started work or increased their hours of work which will remove them from the cap. Application of the cap was a rolling programme.

At the end of August 2018, 23 HRA tenants were impacted. The council has contacted all those affected to support and advise them. Some tenants may need short term Discretionary Housing Payments (DHP's) to support them until they are able to improve their circumstance. DHPs are used extensively to support those affected by welfare reforms. Officers have been working with tenants to find solutions that work for them.

Removal of the Spare Room Subsidy

Numbers of customers affected by the removal of the spare room subsidy continue to reduce slowly and currently there are 248 HRA tenants affected by the reform, with 195 impacted by a reduction of 14% and 33 by 25%. There are currently 17 HRA tenants who receive Discretionary Housing Payments to help towards their rent as due to removal of spare room subsidy.

Limiting the Child Element to two children

From 1 April 2017, new benefit claims and current benefit claims which increase the family element above two children, do not have additional child elements included in the Housing Benefit calculation. There are some exemptions for multiple births, result of abuse and adoption, or similar.
It will not impact on current claimants with more than two children, unless they have more children, then the child allowances will not increase, subject to the above exemptions. There are currently 13 families claiming Housing Benefit where this restriction is in place.

Supported Accommodation Review

DWP and DCLG launched a further consultation considering new funding for supported housing with an effective date of April 2020.

There were three broad proposals:

- Sheltered housing schemes – a new sheltered rent based on existing social sector rent controls plus eligible service charges. This will be met through claims for Housing Benefit or Universal Credit.
- Short-term and temporary housing schemes with support provided will be supported through a ring fenced grant paid to upper tier authorities who will be responsible for the commissioning of this type of accommodation.
- Longer-term supported housing – these arrangements will continue much as they are with 100% of eligible rent and eligible service charges being met through claims for Housing Benefit or Income Support.

A government press release in August 2018 has confirmed the government's intention to keep funding for supported accommodation within the housing benefit system, and not to implement any of the published proposals.

Support for Vulnerable People

South Cambridgeshire District Council is currently contracted with the County Council to deliver a reduced level, £267,000 per annum, of tenure neutral support services to older people across the district, with a contract term of 3 years from April 2018, and an option to extend for one further year from April 2021.

The County Council are currently undertaking a review of housing related support, with the aim to achieve savings of £1 million. It is not yet known how this will impact the above contract.

Section 4
Revenue Resources – Rent and Other Income

Rent Arrears and Bad Debt Provision

Rent collection performance locally remains consistently good, with over 99% of the value of rent due, collected.

Year-end positions in respect of rent debt, using the banded arrears reports in the rent system are summarised in the table below:

Financial Year End	Value of Year End Arrears in Accounts (Current Tenants)	Current Tenant Arrears as a Percentage of Gross Debit Raised in the Year	Value of Year End Arrears in Accounts (Former Tenants)
31/3/2014	£316,922	1.12%	£76,767
31/3/2015	£328,376	1.13%	£98,954
31/3/2016	£306,046	1.03%	£92,305
31/03/2017	£337,081	1.14%	£83,498
31/03/2018	£424,032	1.44%	£105.551

Performance in the collection of current tenant debt worsened during 2017/18, with £424,032 of current tenant debt by 31 March 2018. These current tenant arrears levels have however been maintained during the first 6 months of 2018/19. At the end of September 2018, current tenant arrears stood at £413,314 and former tenant arrears at £136,694, with the latter being considerably higher than at the start of the year.

Although staff continue to work proactively with tenants in arrears, and particularly those affected by benefit changes, the position is still anticipated to become more challenging as the rollout of direct payment escalates from October 2018..

Recognising the need to collect rent directly from an increasing number of residents as direct payment rolls out, the current increased assumption of setting aside 0.4% of the rent due in 2018/19 and 0.5% from 2019/20 to meet bad debt, is retained.

At 31 March 2018, the provision for bad debt stood at £352,054, representing approximately 66.5% of the total debt outstanding.

Void Levels

The estimated value of rent not collected as a direct result of void dwellings in 2017/18 was £324,024, representing a void loss of 1.14%.

At the end of 2017/18, 43 properties were unoccupied, representative of 0.8% of the housing stock, with approximately 14% of these void dwellings being intentionally held vacant pending disposal, reconfiguration or re-development of the site.

The assumption of 1.1% voids in general housing is still considered appropriate for the longer-term. Any requirement to sell higher value void properties would impact this assumption in future iterations of the business plan, with the deferred loss of estimated rental income already incorporated into the financial forecasts as a separate assumption until the outcome of the housing green paper consultation is confirmed or legislation is repealed to allow this assumption to be removed.

Rent Setting

Rent levels continue to be set in February of each year, with the decision made at Council, following pre-scrutiny by the Scrutiny and Overview Committee and then Cabinet. From April 2019, the authority is required to apply the final year of four years of rent cuts in social housing of 1% per annum.

In respect of affordable rented homes, the government require local authorities to determine what 80% of the market rent is for each dwelling, and ensure that the combined rent and service charges levied for a property does not exceed this level, minus the 1% reduction required each year for the four years from April 2016. As local policy limits affordable rents to the Local Housing Allowance level (approximately 60% of market rent) from the point of introduction, it is argued that the 4 year reduction has already been applied for these properties at inception. As a result, affordable rents are reviewed in line with the Local Housing Allowance each year, ensuring that they do not exceed 80% of what is deemed to be market rent, less the impact of 4 years of reducing this by 1%.

The authority identified further savings as part of the 2018/19 budget processes, to help to offset the financial impact of this policy.

From April 2020 the authority is able to revert to the previous policy of increasing rents by CPI (as measured at the preceding September), plus 1% each year, from April 2020, for five years, after which in the absence of any formal announcement, the assumption is a return to inflation plus 0.5% from April 2025.

Rent Restructuring

Property specific target social rents under the rent restructuring regime still apply, with targets to reduce by 1% for a further year from April 2019 in line with the requirement to reduce social housing rents by 1%.

The authority has the ability to close the gap between target social rent and the actual rent being charged for a dwelling, only when a property becomes void, and actively does this.

The average target 'rent restructured' social rent at the time of writing this report in 2018/19 across the socially rented housing stock was £107.62, with the average actual rent charged being £101.63, both recorded on a 52 week basis. At the time of writing this report, 35% of the social rented housing stock was being charged at target rent levels, compared with 31% in the previous year.

The gap between actual and target rent levels now equates to an annual loss of income of approximately £1,333,745 across the HRA, compared with the income assumption in the HRA Self-Financing Debt Settlement, where convergence was anticipated well before now.

There were 61 new build or acquired properties charged at the higher 'affordable rent' levels, equivalent to the Local Housing Allowance at 1st April 2018, with 3 of these being shared ownership homes.

Reserves

Housing Revenue Account General Reserves

Reserves are held partly to help manage risks inherent in financial forecasting and budget-setting. These risks include changes in inflation and interest rates, unanticipated service demands, rent and other income shortfalls, and emergencies. In addition, reserves may be used to support the Housing Capital Investment Plan and, in the short-term, to support revenue spending, for example to spread the impact of savings requirements over more than one financial year. For the Housing Revenue Account the intended target level of reserves remains at £2m.

The impact on HRA reserves for 2017/18, and 2018/19 to date is shown in the table below:

Budgeted or Actual Use of / (Contribution to) HRA Reserves	Financial Year	
	2017/18 £'000	2018/19 £'000
Opening General HRA Reserves	**(8,992)**	**(10,096)**
Changes in HRA Reserves		
Original Budget (Approved in February)	180	991
Rollovers (Approved in July)	800	431
MTFS Mid-Year Review (Approved in November)	(366)	(2,950)
Budget Setting Report Revised Budget (February)	(98)	-
Estimated Closing General HRA Reserves	**(8,476)**	**(11,624)**
Actual Outturn for the Year (Reported in July)	(1,104)	-
Contribution to / (from) Ear-Marked Reserves	0	-
Actual Closing General HRA Reserves	**(10,096)**	**-**

The original budget for 2018/19 approved a net use of general reserves of £991,120 and incorporated a revenue contribution of £2,925,720 to fund capital expenditure.

The financial projections incorporated into this report include the effects of changes in capital scheme approvals and resources, approved rollovers from 2017/18, incorporation of budgets amendments proposed as part of this report and revised estimates for interest due for 2018/19 based upon revised cash balance assumptions made as part of this HRA Medium Term Financial Strategy.

The final general HRA reserves position reported at 31 March 2018 was £10,096,304.

The revised projection is now for a contribution to general reserves in the current year (2018/19), indicating that there is expected to be a net contribution to reserves of £1,527,820, which would leave a balance of £11,624,120 at 31st March 2019.

There is now a proposed use of £4,094,920 of direct revenue financing of capital expenditure in 2018/19 as a result of approval of rollovers as part of the outturn process for 2017/18. There is also a continued use of direct revenue financing of capital expenditure in future years, as a result of the decision to utilise the reserve previously held for potential debt redemption to allow top up and appropriate re-investment of right to buy receipts.

Earmarked Funds

In addition to General Reserves, the Housing Revenue Account still maintains a small number of earmarked or specific funds which are held for major expenditure of a non-recurring nature or to mitigate perceived risk. See **Appendix I** for detail of existing balances held.

Section 5
Review of Revenue Budgets

2018/19 Mid-Year Budget Changes

As part of the HRA Medium Term Financial strategy, there is no formal mid-year review of service delivery or operational budgets, but there is an opportunity to review the HRA position for the current year from a strategic perspective, allowing incorporation of any major in-year changes in income or financing arrangements as a direct result of changes in the capital programme.

For 2018/19, there is the need to recognise and approve the following changes in the HRA mid-year:

- An increase in the anticipated rental income for the year due to deferral of the assumption of the need to hold void dwellings from October 2018 to meet a higher value voids levy from April 2019.

- A marginal change in the level of funding required to top up the bad debt provision in 2018/19 as this is linked directly to rental income values.

- An increase in the anticipated interest received on cash balances for 2018/19, due to the level of cash balances held.

- A significant reduction in the level of depreciation charged to the HRA based upon the final level of depreciation charged in 2017/18 following a review of both asset values and remaining asset lives. The review resulted in an extension to asset lives in recognition of investment in the stock as part of the decent homes programme.

- An increase in the amount of revenue financing of capital expenditure required in 2018/19, as a direct result of the changes in depreciation assumptions.

These changes are detailed in **Appendix D (1)**, and are incorporated into the HRA Summary Forecast at **Appendices G (1) and G (2).**

Housing Bids & Savings Programme

As part of the 2016/17 budget setting process, a formal savings target of £250,000 per annum, for four years, was incorporated into the HRA, in direct response to some of the national changes in housing policy which have, or were expected to have a negative financial impact on the HRA.

As part of the 2018/19 budget preparation process a detailed financial review of the HRA was undertaken to arrive at proposals for how to deliver year 2 of the savings required, ensuring that the authority was best placed to respond to changes in the economy and in national housing policy. The savings target of £250,000 was over-achieved in year 1, resulting in a reduced target of £100,480 for 2018/19. This revised target was also over-achieved, leaving a balance of £147,540 of savings to be found during 2019/20 and 2020/21.

It is important to consider how services may need to continue to transform for the future, to deliver within the financial constraints imposed, whilst still meeting the needs of the most vulnerable.

For 2019/20 a similar approach will be adopted when setting service budgets, with cost centre managers being asked to scrutinise their budgets, highlighting any areas of potential saving or unavoidable pressure and identifying any areas where new or increased investment is required or income can be generated.

Any operational pressures for the Housing Service for 2019/20 and beyond will also need to be considered as part of this process, and these include:

- Additional rent collection and arrears recovery costs associated with welfare reform
- Additional costs as a result of any changes in fire safety legislative requirements

In a similar approach to last year, as part of the HRA Medium Term Financial Strategy process, officers have been asked to provide early identification of areas where savings could be made or where additional investment is either required or desired.

The early indicative bids and savings will be reviewed, challenged and discussed with the Lead Cabinet Member for Housing, with the potential for changes to be made. The final proposals will be presented to Cabinet and Council, following scrutiny consideration, as part of the 2019/20 budget process, and will be included in the 2019/20 HRA Budget Setting Report.

The results of this exercise are detailed in **Appendix D (2)**, and indicate that the savings can be identified to offset a significant proportion of the required additional investment, with a shortfall at this stage of £102,740 in 2019/20, reducing to £98,740 in 2020/21 and £57,050 from 2021/22.

These proposals have not been built into the HRA Summary Forecast at **Appendix G (1) and G (2)**, as they will be subject to change and revision in the lead up to the 2019/20 budget process, where they will be incorporated formally.

Depreciation

Prior to April 2012, the Major Repairs Allowance (MRA) was included in the HRA as a proxy for depreciation. When self-financing was introduced, a move to accounting for actual componentised depreciation was announced, with an initial 5 year transitional period until March 2017, where the notional MRA could still be used as the measure of depreciation to allow authorities time to move towards this. Transitional measures ceased with effect from 31st March 2017, and all stock holding local authorities are now required to account for full depreciation on a componentised basis, from April 2017.

Depreciation is charged to the revenue account each year, and the resource is then transferred into the major repairs reserve, where it is in effect 'locked' and is only available to be re-invested in the creation or improvement of social housing assets.

Following a review of the basis of depreciation for the housing stock by the Council's independent valuers, Wilks, Head and Eve, changes were made in respect of the level of depreciation charged for 2017/18, as a result of an increase in estimated remaining asset lives. Remaining asset lives were increased in recognition of the significant investment in the housing stock in recent years as part of the decent home programme, resulting in a significantly reduced depreciation charge to the HRA.

Section 6
Housing Capital Budget

Stock Investment and Decent Homes

Stock condition data is continually updated in respect of the housing stock, improving the information held to inform future decision making. Following a tender process, the authority is now working with Cambridge City Council to jointly implement updated software to record and report asset management data, as part of a wider project to deploy a fully integrated housing management information system.

At 31 March 2018, 95.25% of the housing stock was reported as decent, compared with 93.75% at 31 March 2017, with 248 properties that were considered to be non-decent (in addition to refusals by tenants to access the property and undertake the necessary works), and another 96 anticipated to become non-decent during 2018/19.

In addition to decent homes investment, in 2018/19 the authority is still investing in energy conservation initiatives, such as external wall insulation and topping up of loft insulation. The budget for this type of discretionary investment has however been reduced significantly from April 2019 onwards, when the current programme of external wall insulation finishes.

Other investments include more controllable high heat retaining electric storage systems and investment in renewable energies where appropriate such as air source heat pumps. Health and safety work is being undertaken to upgrade the Councils fire doors in flats that have been identified through testing following the tragic event of Grenfell to be non-compliant this is being followed up with a rolling programme of door replacement and annual safety assessment. Emergency lighting is being installed in flat blocks and smoke alarms have been installed that are linked to the emergency alarms in sheltered housing.

The level of investment in the housing stock as a whole was subject to review as part of the 2017/18 budget setting process, with resulting reductions in expenditure. Any further reduction in the level of investment in the existing housing stock helps to ensure that the authority can set a balanced budget for the HRA over the longer-term, without breaching the HRA debt cap, whilst also maximising any resource available to increase the supply of new affordable housing.

The latest Housing Capital Investment Plan is included at **Appendix H.**

As with the revenue position, officers have been asked for early indications of where savings may be delivered in the Housing Capital Programme or where increased or new investment may be required. The findings from this exercise are detailed at **Appendix D (2),**

Consistent with the exercise for revenue savings, these proposals have not been built into the Housing Capital Investment Plan at **Appendix H**, as they may be subject to change and revision in the lead up to the 2019/20 budget process, where they will be incorporated formally.

New Build & Re-Development

General Approach

Following changes in national housing policy, the authority has not been able to rely upon rental surpluses in the short-term to provide resource for investment in new build housing.

To ensure the delivery of a new build programme in the short to medium term, resources previously set-aside for potential debt repayment have been combined with section 106 commuted sums, right to buy receipts and other existing funding streams that can be released as a direct result of capital receipts from the sale of HRA land as self-build plots.

The authority has bid for permission to increase its HRA borrowing cap, as part of the Ministry of Housing, Communities and Local Government's 2019/20 to 2021/22 Additional Housing Revenue Account Borrowing Programme. If the bid is successful, the authority will see an increase of £17.1 million in its borrowing capacity, which will assist in the delivery of an estimated 149 new rented and shared ownership homes across 6 development sites in the district. Subsequent to the bid process, the Prime Minister has announced removal of the HRA borrowing cap altogether, and the authority awaits the details of how and when this change will be implemented. Until the outcome of the bid and the detail around removal of the borrowing cap are known, the new build schemes have been built into the pipeline without the assumed borrowing, to allow them to proceed in either eventuality.

The ability to borrow to deliver new homes on the sites identified as part of the bid, will in turn free up HRA resource to allow the authority to build new homes on other sites as they are brought forward for development.

The outcome of the bid is anticipated as part of the 2018 Autumn Statement.

The authority also continues to explore alternative funding options and delivery models, including; mixed rented and market sale schemes, shared ownership homes and starter homes, with initiatives such as modular construction also being considered.

New Build and Re-Development Schemes Completed

The table below updates the position in respect of schemes completed at the time of writing this report:

Scheme	Status	Estimated Affordable Units	Scheme Composition
Fen Drayton Road, Swavesey	Completed May 2016	20	4 x 1 Bed House 10 x 2 Bed House 5 x 3 Bed House 1 x 4 Bed House
Horseheath Road, Linton	Completed July 2016	4	1 x 2 Bed Bungalow 2 x 2 Bed Flat 1 x 2 Bed House
Hill Farm, Foxton	Completed January 2017	15	4 x 1 Bed House 6 x 2 Bed House 5 x 3 Bed House
Robinson Court, Gamlingay	Completed August 2018	6 plus 4 shared ownership and 4 market sale	4 x 1 Bed Flat 2 x 2 Bed Flat 2 x 1 Bed House (Shared Ownership) 2 x 2 Bed House (Shared Ownership) 2 x 2 Bed House (Market Sale) 2 x 3 Bed House (Market Sale)

Scheme	Status	Estimated Affordable Units	Scheme Composition
Pampisford Road, Great Abington	Completed April 2018	6 plus 2 shared ownership	2 x 1 Bed Flat 2 x 2 Bed House 1 x 2 Bed Bungalow 2 x 2 Bed Bungalow (Shared Ownership) 1 x 3 Bed House
Bannold Road, Waterbeach	Completed April 2018	16 plus 7 shared ownership	6 x 1 Bed Flat 6 x 2 Bed Flat 4 x 2 Bed House 2 x 2 Bed House (Shared Ownership) 5 x 3 Bed House (Shared Ownership)
Total		**67 rented 13 shared ownership 4 market sale**	

New Build and Re-Development Schemes On Site or Approved to Proceed

The table below updates the position in respect of schemes either on site or at earlier stages in the process, but with formal scheme specific approval in place, confirming their status and the current budget allocation which is required for each of the schemes, with the budgeted cashflow included at **Appendix E.**

Scheme	Status	Estimated Affordable Units	Indicative Scheme Composition (Subject to Change)	Scheme Budget (Gross of subsidy / capital receipts)
Pembroke Way, Teversham	Planning October 2018	5	2 x 1 Bed Flat 1 x 1 Bed Bungalow 2 x 2 Bed House	876,960
Woodside, Longstanton	On site	3	3 x 2 Bed House	422,230
Balsham Buildings, High Street, Balsham	On site	9 plus 4 shared ownership	7 x 1 Bed Flat 2 x 2 Bed Flat 4 x 2 Bed House (Shared Ownership)	1,848,900

Scheme	Status	Estimated Affordable Units	Indicative Scheme Composition (Subject to Change)	Scheme Budget (Gross of subsidy / capital receipts)
Gibson Close, Waterbeach	Planning approved. Contract negotiations with developer	6 plus 3 shared ownership	4 x 1 Bed Flat 2 x 2 Bed House 3 x 2 Bed House (Shared Ownership)	1,452,340
Highfields, Caldecote	Planning approved. Contract negotiations with developer	3	1 x 1 Bed House 2 x 2 Bed House	448,960
Linton Road, Great Abington	Developer on site, but not in contract yet	13 plus 5 shared ownership	6 x 1 Bed Flats 2 x 2 Bed House 5 x 3 Bed House 2 x 2 Bed House (Shared Ownership) 3 x 3 Bed House (Shared Ownership)	3,907,000
Grace Crescent, Hardwick	Developer on site, but not in contract yet. Affordable housing later in build programme	27	16 x 1 Bed Flats 9 x 2 Bed Houses 1 x 3 Bed House 1 x 4 Bed House	4,711,480
Total		**66 rented 12 shared ownership**		**13,667,870**

New Build and Re-Development Schemes in the Pipeline

There are a number of schemes where feasibility work is being carried out with a view to building out the sites for the HRA directly, or alternatively negotiations are in progress with developers, for the HRA to acquire the affordable housing on existing new build development schemes. These schemes do not yet have formal scheme specific approval, and as such have not yet been built in to the Housing Capital Investment Plan on a scheme specific basis, with funding instead included in the unallocated new build budget. When a scheme receives approval, resource is vired from the unallocated new build / acquisition budget to the scheme specifically to allow monitoring of progress.

The current pipeline schemes are listed in **Confidential Appendix L,** as the nature of early discussions and negotiations with land owners or developers can be commercially sensitive. A number of the schemes in the appendix are included in the bid via Homes England for permission as part of the government's 'Additional HRA Borrowing Programme 2019/20 to 2021/22 to increase the HRA borrowing cap at South Cambridgeshire District Council. If unsuccessful, the Council will need to re-evaluate which of the schemes it will still take forward using HRA resources.

The majority of schemes deliver new provision of affordable housing and as such will currently be eligible for 30% of the scheme to be funded using retained right to buy receipts. Shared ownership dwellings or schemes where some or all of the new homes will replace existing social housing which is no longer considered fit for purpose, are not currently eligible for use of this resource. This may change when the outcome of the government consultation on the use of right to buy receipts is concluded.

New Build – Other (including use of RTB Funding)

The new build schemes above that currently have scheme specific approval are not sufficient to ensure that the authority can appropriately re-invest all of the right to buy receipts retained to date. If all of the pipeline schemes progressed, were successful with developers where they are dependent upon offers being made and accepted and secured member approval to proceed, the authority would have invested sufficient resource to avoid releasing any retained right to buy receipts to central government. If some schemes do not proceed, there will be a need to identify and fund further new build schemes, acquire existing homes for use as social housing, or pass the resource over to a registered provider for re-investment.

The assumption has been retained, that the authority utilise resource previously set-aside for the potential redemption of housing debt, combined with existing resource released by virtue of capital receipts that have been received for the sale of HRA land and dwellings on the open market in recent years and HRA revenue resources, where available, to provide sufficient resource to allow the appropriate re-investment of existing and anticipated retained right to buy receipts in the medium term, without the need to pass any funding to a registered provider in future years.
In the short term, the biggest challenge remains the ability to bring forward schemes in quick enough succession, to be able to re-invest retained right to buy receipts within the required timescales, thus avoiding payment of them to central government with interest. There is a desire to move to a positon where receipts are re-invested 12 months in advance of the deadline, but in reality, this is proving difficult to achieve. Delays in obtaining planning permission, securing approval and entering into contract with developers have been further compounded by delays once schemes are actually o site for a variety of reasons. In 2018/19, the authority has again been forced to acquire existing homes on the open market at short notice, in an attempt to avoid penalty, with 6 homes sought to date.

Work is ongoing to identify and secure new build sites and explore future development opportunities, in a bid to ensure that the HRA has sufficient tangible pipeline schemes to meet investment commitments.

The HRA Medium Term Financial Strategy includes budget approval into the next 4 years, for investment in new build housing to allow all of the pipeline schemes currently identified to proceed if schemes are viable and offers are successful, but there is a need to recognise that this may not be the case, and that some resource may then need to be re-phased into later years for investment in alternative schemes. It is inevitable that some pipeline schemes will not go ahead due to planning or other reasons, and substitute schemes will need to be found. These schemes, if within the approved budget, can be substituted into the development pipeline.

As a backstop position, the authority is currently still able to acquire further homes on the open market or to pass receipts to a registered provider for them to invest in new build affordable housing within the required timescales and in a way which is compliant with the retention agreement with MHCLG.

Self-Build

Work is progressing in identifying, preparing and marketing parcels of HRA land that provide self-build opportunities, releasing capital receipts which are then available for re-investment by the HRA to release resource elsewhere in the capital programme, facilitating the delivery of new homes in the district.

It is proving more difficult than anticipated to dispose of the plots once ready for sale, and indications from the bids for the first 4 plots are that the authority is not able to achieve the financial sums anticipated at the outset.

19 sites (25 potential plots) are currently being progressed, with 3 single plot sites and 1 triple plot site approved for sale and in receipts of bids to date. 5 further sites have outline planning permission and 4 are at the pre-planning stage. Others are still undergoing investigation and feasibility work.

Assumptions are incorporated into the HRA Business Plan that capital receipts from plot sales will be available to HRA as a funding source.

The original business case for self-build anticipated that each plot may realise a gross capital receipt of up to £250,000, which after financing the costs of site preparation, could leave a net receipt of up to £200,000 per plot available to the HRA for re-investment.

This is not being borne out in respect of the experience to date, with the value of bids received for plots marketed to date being significantly lower than anticipated. Reasons for this may include a flattening market, an interest rate rise and future expected interest rises, coupled with our self-build register applicants as ordinary people with aspirations for building their own homes being more cautious than anticipated. However the costs incurred in plot preparation are also marginally lower. The business plan indicated that if income targets were not being met this can be managed by accelerating plot sales to meet cash targets. As a result of performance to date, officers have committed to a review of the business case in advance of the HRA Budget Setting Report in February 2019.

In advance of the findings of this review, the gross capital receipt has been reduced from the previous £250,000 per plot to an average of £160,000 per plot, to ensure that the HRA forecasts are constructed on a prudent financial basis.

The table below details sites which already have approval for disposal:

Location	Status	No. of plots
Benet Close, Milton	Approved bid	1
Macaulay Avenue, Great Shelford	Approved bid	3 (Custom Build)
Cambridge Road, Balsham	Approved bid	1
Blacksmiths Close, Babraham	Approved bid	1
Total		**6**

Section 106 Funding

Commuted Sums Money received in lieu of Affordable Housing

If the Council receives commuted sum payments, often time limited, where approval has been granted as part of the planning decision to receive payment in lieu of affordable housing, the default position is that the HRA utilises the resource to invest in affordable housing.

The Council currently holds £3.93m in commuted sums for affordable housing. The following table provides an update of when current sums held have to be spent (year-end prior to deadline date), against the resource committed to date

Year	Section 106 sum to be spent £	Cumulative Section 106 sum to be spent £	Resource committed General Fund £	Resource committed HRA £	Cumulative resource still to be committed £
2018/19	49,927	49.927	50,000	451,780	-
2019/20	571,040	620,967	0	0	119,187
2020/21	235,518	856,485	0	0	354,705
2021/22	94,500	950,985	0	0	449,205
2022/23	293,180	1,244,165	0	0	742,385
2023/24	68,824	1,312,989	0	0	811,209
2024/25	381,213	1,694,202	0	0	1,192,422
2025/26	2,236,454	3,930,656	0	0	3,428,876
			50,000	451,780	

Commitments to date include:

Scheme	Fund	2018/19 £	2019/20 £	Ongoing £
Emmaus – 10 en-suite bed-spaces	General Fund	50,000	0	0
High Street Balsham – contribution towards delivery of 4 shared ownership homes	HRA	104,600	0	0
Gibson Close, Waterbeach – contribution towards 3 shared ownership homes	HRA	97,180	0	0
Linton Road, Great Abington – contribution towards 5 shared ownership homes	HRA	250,000	0	0
		501,780	**0**	**0**

With £3,428,876 of resource still to be committed and appropriately re-invested, and a commitment to invest the sum in new HRA homes wherever possible, further expenditure of £500,000 per annum, and associated Section 106 match funding has been retained in the Housing Capital Plan for the 5 years from April 2019.

As the resource can't currently be combined with retained right to buy receipts for the delivery of an affordable rented dwelling, it is likely that the funds will be utilised predominantly to deliver other forms of affordable and intermediate housing, such as shared ownership or shared equity.
Based on the pipeline schemes identified within the HRA new build programme, the likely funding required for shared ownership units could be up to £4.1 million, subject to planning and contracts. It is our intention to use commuted sum where appropriate to support delivery of shared ownership homes as part of the development pipeline approval.

Asset Acquisitions & Disposals

Consideration continues to be given to the strategic acquisition or disposal of assets, in line with the current HRA Acquisition and Disposal Policy.

The Right to Buy Retention Agreement allows the acquisition of existing dwellings, as an alternative to building new homes. Although not the first priority for the use of this resource, market acquisition does increase the supply of affordable homes available in the district, and is a valid option when new build is not possible within a quarterly deadline for the use of retained receipts. If a decision is taken at the end of a quarter that there is a risk that new build schemes will not deliver in the required timeframes, resources can be vired from the unallocated new build / acquisition budget into the budget for direct market acquisition, with the relevant approvals.

In 2017/18, resource of £719,000 previously ear-marked for investment in new build homes was diverted into acquisition of market dwellings, to allow the authority to buy 3 properties for rental at affordable rent levels. In 2018/19 to date, approval has been given for the acquisition of 6 further dwellings on the open market.

Property Address / Location	Property Type	Status
26 Moat Way, Swavesey	2 Bed House	Complete – 2017/18
45 Hudson Road, Cambourne	2 Bed House	Complete – 2017/18

61 Jeavon's Lane, Cambourne	3 Bed House	Complete – 2017/18
18 Halifax Road, Cambourne	3 Bed House	Complete – 2018/19
12 Whitley Road, Camourne	2 Bed House	Complete – 2018/19
52 Sterling Way, Cambourne	2 Bed House	Complete – 2018/19
4 Cottage Green, Papworth	3 Bed House	Complete – 2018/19
57 School Lane, Cambourne	2 Bed House	Complete – 2018/19
7 Spar Close, Cambourne	2 Bed House	Complete – 2018/19

Receipts from individual asset disposals are currently recognised in the HRA's reserves only at the point of receipt and after all relevant costs have been provided for,

Receipts from the sale of self-build plots are however, already incorporated into financial planning, in anticipation of the need to utilise them in place of other HRA resource, freeing up the latter to top up existing retained right to buy receipts. Any delay in the receipt of these capital sums will significantly impact the authority's ability to spend right to buy receipts appropriately.

As part of the quarterly decision as to whether the authority should retain right to buy receipts, pass them to a registered provider, or as a last resort pay them over to central government, officers need to consider the progress in respect of the sale of self-build plots and any other capital receipts which may have been received by that point in any year, as these release funds elsewhere in the capital programme that can be re-directed into investment in new homes built using right to buy receipts as part of their funding. There is a risk judgement that needs to be made as part of this quarterly decision making process.

Budgetary Changes

Appendix H provides detail of the revised 5-Year Housing Capital investment Plan, and incorporates the following items:

- Expenditure as approved in the HRA Budget Setting Report in February 2018.
- Re-phasing (rollover) of expenditure anticipated to take place in 2017/18 into 2018/19 and beyond, as approved in July 2018.

- Re-phasing of anticipated expenditure in respect of new build schemes, taking account of the latest budgetary requirements for schemes that are in the pipeline or in progress.
- Virement of resource from the general allocation for new build housing to schemes which have received scheme specific approval at Linton Road, Great Abington and Grace Crescent, Hardwick.
- Inclusion of specific budgets for acquisition of dwellings in 2018/19 to ensure that right to buy receipts can be appropriately re-invested despite re-phasing in the new build programme.
- Amendment to the budget held for unallocated new build investment in line with schemes currently in the pipeline, to allow virement of resource as schemes are brought forward for approval.
- Capital financing has been updated in respect of revised assumptions in right to buy and other capital receipts, grants, Section 106 funding, revenue funding of capital expenditure and borrowing requirements.

The current HRA Business Plan and resulting Housing Capital Investment Plan are constructed on the basis that a partial investment standard is retained in the housing stock, but recognising that future consideration needs to be given to the impact of reducing investment levels over the longer-term to the basic decent homes standard, to provide flexibility to respond to the financial pressure that the HRA faces and the difficulty in identifying sufficient long term funding to be able to appropriately re-invest retained right to buy receipts.

Section 7
Summary and Conclusions

HRA Budget Strategy

The Budget Process

The HRA budget for 2019/20 will incorporate the proposals made as part of the HRA Bids and Savings Programme. The detail in terms of individual savings proposals, and the impact of reducing budgets by these values, will be presented as part of the 2019/20 budget process. The process will remain broadly similar to that for previous years in terms of timing and detailed administration.

The work being undertaken as part of the budget process to exemplify savings will not only allow response to the changes (confirmed and currently being consulted upon) in national housing policy which may impact the HRA business model, but will also allow strategic re-direction of resource into other areas of investment, such as new build housing, should the external financial pressures not be as originally anticipated.

For 2018/19 the HRA Medium Term Financial Strategy incorporates changes in anticipated interest earned, depreciation, rental income and the associated bad debt provision and a change in the level of direct revenue financing of capital expenditure required in year. Any ongoing impact of these changes has been incorporated into the base assumptions going forward.

Also incorporated are changes in the capital programme in respect of the budget now required for specific new build schemes, adjusted as they reach the next milestone in the development process and for non-scheme specific new build investment, based upon the level of investment required to avoid paying any retained right to buy to Central Government, instead ensuring they are re-invested in the locality.

Approach to HRA Savings

Some of the changes in assumptions made as part of this update of the HRA Business Plan, have a positive impact for the HRA, including further deferral of the assumption about when the sale of higher value voids levy may be introduced pending formal confirmation that it will not be introduced at all and a reduction in the assumption for inflation in 2020/21.

There is however still a need to consider the delivery of a sustainable HRA over the full 30 years,

A savings target of £250,000 per annum for 4 years from April 2017, was approved by Council in February 2016. The savings target of £1,000,000 was spread across the four years at a value of £250,000 per annum, to allow time to consider where to make efficiencies or to reduce or cease the delivery of services. As the year 1 and 2 targets were over-achieved, the balance of savings sought for the remaining 2 years is £147,540.

As a result of the updated assumptions in this iteration of the business plan, the balance of savings is not currently required to ensure a sustainable HRA over the longer-term, and the continuation of a new build programme for ten years to meet obligations under the retention agreement, based upon current sales values and estimated numbers.

As the net impact of the changes improves the current outlook for the HRA, this report proposes a budget strategy where efficiency savings are sought to ensure that value for money can be demonstrated and that tenants and leaseholders continue to receive services at the best price possible, whilst also incorporating a strategic investment fund, which will allow re-direction of resources into key areas of the Housing Service to meet the challenges that providers of affordable housing are facing. A commitment is given to review this again during 2019/20, as part of the 2019/20 HRA Medium Term Financial Strategy

The detail in terms of individual savings proposals, and the impact of reducing budgets by these values, will be presented in full as part of the 2019/20 budget bids and savings process, to ensure that these can be weighed up against any strategic re-investment proposed. An early indication of the items is provided at **Appendix D (2),** but at this stage, the impact of these has not been built into the financial assumptions in the HRA Business Plan.

The inclusion of a 3% (£142,000) of general management and repairs administration expenditure efficiency target for 2019/20, reducing to 2% from 2020/21, is considered prudent in light of continued uncertainty in some areas of national housing policy, and may allow resource to be identified for strategic reinvestment in other areas of the housing service. The continued uncertainty does not mean that some of the national changes proposed that would negatively impact the HRA won't materialise at all, and inclusion of an efficiency target, and an associated strategic reinvestment fund ensures that the authority is best placed to respond to change, but avoids the authority cutting services too severely, too soon. The authority will need to review and evaluate its position for 2020/21 onwards, once there is clarity at a national level.

Inclusion of strategic reinvestment funding of £142,000 per annum for 2019/20, (reducing to 2% or £95,000 from 2020/21), funded from any efficiency savings identified, for a 5 year period, beginning in 2019/20, allows the authority to either redirect resource into key areas or alternatively to hold off in the event of financial pressure, allowing the efficiency savings identified to contribute to an overall reduction in HRA expenditure in response to any national policy announcements. There is also the option in any one year, if efficiency savings are not identifiable, to waive any strategic reinvestment, thus negating the need to make savings which may detrimentally impact the delivery of key housing services.

An adjustment in respect of repairs expenditure in line with estimated stock changes is also assumed.

As part of the 2019/20 budget setting process, any areas of new revenue investment will need to be offset by the identification of additional savings or increased income generation elsewhere across the HRA.

Pending formal confirmation of the abolition of any higher value voids levy, any resource previously set-side for potential debt redemption is still assumed to be utilised to sustain the HRA or to be re-invested in new homes, recognising that this will mean that all loans will currently need to be re-financed as they reach maturity.

One of the key challenges for 2018/19 and beyond, remains the need to ensure that the authority can re-invest retained right to buy receipts appropriately, with the potential for the receipts to need to be paid over to CLG, with interest, currently at 4.75%, calculated from the quarter in which they were originally received if not spent within 3 years. It is not only identification of resource to top up the right to buy receipts that proves challenging, but also our ability to identify sites, secure planning permission, and deliver new homes within the time constraints imposed.

The position will be reviewed again as part of the February 2019 HRA Budget Setting Report, with a view to maintaining service delivery in key statutory areas and protecting services for the most vulnerable, whilst attempting to maintain a programme of new build housing where possible.

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.

In all cases, the revised assumptions included are derived from the best information available at the current time, utilising both historic trend data and the expert advice and opinion of specialists where appropriate.

The base financial assumptions included in the financial model are included at **Appendix B**, with continuing uncertainties for the HRA summarised at **Appendix K.**

Appendix G (1) summarises the revenue budget position for the HRA for the period between 2018/19 and 2022/23, based upon inclusion of the amended financial assumptions that form part of the update to the HRA Self-Financing Business Plan, with **Appendix G (2)** providing a longer-term forecast.

Appendix J demonstrates the potential impact of 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 currently being assumed.

HRA MTFS Conclusions

Updating the base assumptions for the HRA has not had a significantly different impact on the future financial projections for the housing business when compared with those made in January / February 2018.

Current financial modelling retains the assumption of the requirement to reduce rents by 1% for one further year from April 2019, and assumes a further year of deferral of the need to sell higher value housing stock on the open market when it becomes void to meet a government levy, pending formal conformation that the legislation will not be introduced at all.

However, in order to be in a position to appropriately re-invest existing and anticipated retained right to buy receipts, whilst still delivering a sustainable HRA over a 30 year period, although not currently necessary to seek further savings at this time, it is necessary to ensure that any new revenue or capital investment pressures are met by the delivery of corresponding efficiency savings. The removal of the HRA borrowing cap will however increase the authority's ability to re-invest right to buy receipts using borrowing as an alternative to needing to identify existing HRA resource, subject to the financial viability of each scheme.

This results in the recommendation to include an efficiency target for 2019/20 of £142,000, which represents 3% of general and repairs administration expenditure for the HRA. It is proposed to reduce this to a 2% target for the following 4 years from 2020/21 to 2023/24, which equates to £95,000 per annum.

This will retain flexibility in the HRA to respond to changes in national housing policy, whilst also allowing strategic investment to meet new and emerging priorities.

If we build in the unavoidable revenue pressures, savings and bids identified as part of the pre-budget process, as detailed in **Appendix D (2)**, the HRA can meet many of the increased costs with efficiency savings over the longer term, but has not yet fully identified sufficient resource to meet the level of additional investment proposed, with a shortfall of £102,740 for 2019/20, £98,740 for 2020/21, reducing to £58,030 ongoing from 2021/22. Work will continue in the lead up to setting the HRA budget in February 2019, to identify additional savings.

Incorporating updated assumptions without the proposed bids and savings means that sufficient resource is available to maintain a new build programme, at the level required to top up the estimated right to buy receipts, for a further 9 years, until 2027/28. This would deliver a sustainable business plan over the 30 year period.

Appendix A

Key Risk Analysis

Risk Area & Issue arising	Controls / Mitigation Action
Effects of Legislation / Regulation	
Implications of new legislation / regulation or changes to existing are not identified	• Effective, formal, regular review processes are in place for the HRA to ensure that implications are identified, quantified and highlighted
Funding is not identified to meet the costs associated with changes in statutory requirements	• Additional / specific funding requirements for new services can be identified through the budget process, to allow effective prioritisation of resources. Minimum reserves are held to allow immediate investment if required.
HRA Debt Settlement could be re-opened by Government (or not re-opened when changes dictate that it should)	• The Council has processes in place ensuring early engagement in any consultation and collective representation through national housing bodies
Changes in national rent policy impact the ability to support the housing debt or deliver against planned investment programmes	• Impact of any proposed changes to national rent policy is incorporated into financial planning as early as possible. • Consideration could be given to deviating from national rent policy at a local level if statute were to allow
Implementation of Fixed Term Tenancies carries administrative cost and dictates the need for system change at a time when the Housing Management Information System is being re-procured	• Project Board for system replacement are aware of the potential need for changes to IT systems and have discussed this with suppliers as part of the tender process • Fixed term tenancies may now not be imposed, depending upon outcome of Housing Green Paper
Housing Portfolio & Spending Plans	
The Council approves plans which are not sustainable into the future, leading to increasing problems in balancing budgets	• Council has adopted medium and long-term modelling (up to 30 years) for HRA, ensuring decisions are made in context of long-term impact • The Business Plan includes long-term trend analysis on key cost drivers • Target levels of reserves are set for the HRA to enable uneven pressures to be effectively dealt with, and to provide cover against unforeseen events / pressures

Risk Area & Issue arising	Controls / Mitigation Action
Financial planning lacks appropriate levels of prudency	
Business Planning assumptions are wildly inaccurate Financial policies, in general, are not sufficiently robust Funding to support the approved Capital Plan is not available	Council has adopted key prudency principles, reflected in: • Use of external expert opinion and detailed trend data to inform assumptions • Ongoing revenue funding for capital is reviewed for affordability as part of the 30-year modelling process • Adoption of strict medium / long-term planning • Policy on applying general capital receipts for strategic disposals only at point of receipt
Use of resources is not effectively managed	
There is ineffective use of the resources available to the HRA Failure to deliver Major Housing / Development Projects, i.e. return on capital, project on time etc.	• Council employs robust business planning processes for the HRA • Council has adopted a standard project management framework • A business cases is required for all strategic acquisitions, disposals and one-off areas of significant investment • Performance and contractor management procedures are robust and contracts are enforceable • The Council's accounts are audited on an annual basis, with assurance given that the authority is delivering economy, efficiency and effectiveness in its use of resources

Risk Area & Issue arising	Controls / Mitigation Action
External income / funding streams	
Undue reliance may be placed on external income streams, leading to approval of unsustainable expenditure	• Modelling over the medium and long-term is conducted for key income sources, including sensitivity analysis of potential changes • Council seeks to influence national settlements and legislative changes through response to formal consultation and the provision of information to negotiation bodies such as LGA and CIH
Rent and service charge arrears increase and bad debt rises, as a direct result of the Welfare Benefit Reforms	• Increased resources identified for income management. Performance closely monitored to allow further positive action if required.
Rent income is under-achieved due to a major incident in the housing stock	• Asset Management Plan in place to identify and address key issues in the housing stock to minimise likelihood of widespread incidents
Changes to the right to buy rules and pooling regulations result in a continued high level of sales, with the associated commitment to deliver replacement units or pay over receipts with interest	• Sensitivities modelled so potential impacts are understood • Retained resources are monitored to ensure delivery of required units or return of resource at earliest opportunity
Volatility and competition in the property market impacts the ability to fund capital pressures from the sale of assets	• Policy on applying general capital receipts for strategic disposals only at point of receipt
Volatility and uncertainty in the property market impacts the ability to dispose of assets at appropriate values and within timescales required to meet any higher value voids levy	• Reconsider appropriate level of HRA reserves to hold as a minimum once any levy vale is known • Retain capital receipts realised in advance of the levy in anticipation of the need for them • Await repeal of legislation to confirm that levy will not now be introduced

Appendix B

Business Planning Assumptions (Highlighting Changes)

Key Area	Assumption	Comment	Status
General Inflation (CPI)	**2.2% for 2019/20, 2.1% for 2020/21 and 2% ongoing**	**General inflation on expenditure included at 2.6% for 2018/19, then 2.2%, 2.3% and 2% ongoing, per Bank of England projections.**	**Amended**
Capital and Repairs Inflation	**3.2% for 2019/20, 3.1% for 2020/21 and 3% ongoing**	**Based upon inflation as measured by the Retail Price Index (RPI), assuming this to be 1% above CPI over the longer-term. This concurs with the majority of current contracts held by the HRA.**	**Amended**
Debt Repayment	Set-aside to repay debt if resource allows	Assumes set-aside to repay debt as loans reach maturity dates only if resource allows, after any surplus re-invested in income generating assets. No resource currently available.	Retained
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 2019/20.	Retained
Pay Inflation	**1.3% Pay Progression plus: 2018/19 – 1.0% 2019/20 – 2.0% 2% ongoing**	**Assume allowance for increments at 1.3%. Pay inflation at 1% for 2018/19, then 2% for 2019/20 and ongoing, with a return to long-term government aim now from 2019/20, reflecting economic recovery.**	**Amended**
Employee Vacancy Allowance	HRA share of £500,000 total	Employee budgets assume a vacancy allowance of £500,000 per annum for the Council as a whole, apportioned to the HRA on an FTE basis	Retained
Rent Increase Inflation	-1% from 2016/17 for 4 years, CPI plus 1% for 5 years, then CPI plus 0.5% from 2025/26	Rent decreases of 1% per annum per government guidelines from 2016/17 to 2019/20, then CPI plus 1% for 5 years, then reverting to inflation plus 0.5%. Assume CPI in preceding September is as above. Affordable rents and charges reviewed in line with Local Housing Allowance levels.	Retained
Rent Convergence	Voids Only	Ability to move to target rent achieved only through movement of void properties directly to target rent.	Retained
External Lending Interest Rate	2%	Interest rates based on latest market achievement, including interest from Ermine Street Housing	Retained
Internal Lending Interest Rate	2%	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.	Retained
External Borrowing Interest Rate	2.8%	Assumes additional borrowing using Capita predictions of PWLB rates, currently 2.8%, including assumed certainty rate.	Retained

Key Area	Assumption	Comment	Status
Internal Borrowing Interest Rate	2.8%	Assume the same rate as external borrowing to ensure flexibility in choice of borrowing route.	Retained
HRA Minimum Balances	£2,000,000	Maintain HRA minimum balance at £2,000,000, pending a review once the impact of the higher value voids levy and other housing policy changes are clear.	Retained
Right to Buy Sales	20 for 3 years from 2018/19, then 15 sales ongoing	Retain assumption of 20 for 2018/19 to 2020/21 then 15 per annum ongoing from 2021/22.	Retained
Right to Buy Receipts	Settlement receipts excluded. Retained receipts included.	Debt settlement receipts excluded as assumed to fund General Fund housing capital expenditure. Anticipated one-for one receipts included. Debt repayment proportion reported as at 1/4/2017 and assumed available for intended use.	Retained
Void Rates	1.1%	Assumes 1.1% per annum from 2018/19 onwards.	Retained
Bad Debts	0.4% for 2018/19, then 0.5% from 2019/20	Bad debt provision of up to 0.5% over 2 years to reflect the requirement to collect 100% of rent directly for new benefit claimants, following phased implementation of Universal Credit by 2020.	Retained
Efficiency Target	**£142,000 for 2019/20, the £95,000 per annum for 4 years**	**Inclusion of an efficiency target at £142,000 (3%) for 2019/20, then £95,000 (2%) per year ongoing, for 4 years from 2020/21.**	**Amended**
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.	Retained
Strategic Investment Fund	**£142,000 for 2019/20, reducing to £95,000 for next 4 years**	**Creation of a Strategic Investment Fund to be able to facilitate new investment and respond to pressures. To be reviewed again as part of 2019/20 budget process.**	**Amended**
Service Reviews and Restructures	On case by case basis	Service review outcomes assumed to deliver to the HRA as indicated in the review business case, and incorporated once impact is known.	Retained

Appendix C

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)
30/06/2014	190,149.46	3,624,577.44	12,081,924.80	30/06/2017	13,297,663.86	3,989,299.16	0.00	0.00
30/09/2014	542,412.66	4,166,990.10	13,889,967.00	30/09/2017	16,388,697.43	4,916,609.23	0.00	0.00
31/12/2014	490,971.13	4,657,961.23	15,526,537.43	31/12/2017	17,124,841.80	5,137,452.54	0.00	0.00
31/03/2015	417,089.12	5,075,050.35	16,916,834.50	31/03/2018	17,993,937.64	5,398,181.29	0.00	0.00
30/06/2015	417,483.31	5,492,533.66	18,308,445.53	30/06/2018	18,351,811.71	5,505,543.51	0.00	0.00
30/09/2015	527,469.65	6,020,003.31	20,066,677.70	30/09/2018			514,459.82	1,714,865.99
31/12/2015	446,035.59	6,466,038.90	21,553,463.00	31/12/2018			960,495.39	3,201,651.29
31/03/2016	330,902.72	6,796,941.62	22,656,472.07	31/03/2019			1,291,398.11	4,304,660.36
30/06/2016	310,654.33	7,107,595.95	23,691,986.49	30/06/2019			1,602,052.43	5,340,174.78
30/09/2016	687,638.85	7,795,234.80	25,984,115.96	30/09/2019			2,289,691.28	7,632,304.28
31/12/2016	1,410,994.28	9,206,229.08	30,687,430.25	31/12/2019			3,700,685.56	12,335,618.54
31/03/2017	592,869.81	9,799,098.89	32,663,662.95	31/03/2020			4,293,555.37	14,311,851.24
30/06/2017	1,045,231.05	10,844,329.94	36,147,766.45	30/06/2020			5,338,786.42	17,795,954.74
30/09/2017	412,813.15	11,257,143.09	37,523,810.29	30/09/2020			5,751,599.57	19,171,998.58
31/12/2017	527,534.91	11,784,678.00	39,282,259.99	31/12/2020			6,279,134.48	20,930,448.28
31/03/2018	330,590.84	12,115,268.84	40,384,229.45	31/03/2021			6,609,725.32	22,032,417.74
30/06/2018	1,008,074.19	13,123,343.03	43,744,476.75	30/06/2021			7,617,799.51	25,392,665.04

Appendix D (1)

2018/19 HRA Mid-Year Revenue Budget Adjustments

Area of Income / Expenditure	Description	Budget Amendment in 2018/19 Budget (£)	Budget Amendment in 2019/20 Budget (£)	Comment
Budgeted (use of) / contribution to HRA Reserves pre MTFS		**1,422,320**		
HRA Summary Account				
Rent Income	The level of rent income anticipated has increased due to the deferral of the sale of higher value voids levy assumption, which had previously meant that voids would be held from October 2018.	(237,030)	Incorporated into base assumptions	One-Off and built into assumptions in future years
Depreciation	The level of depreciation charged to the HRA is expected to reduce significantly due to a review of asset lives, resulting in longer residual lives for many dwellings.	(3,425,370)	Incorporated into base assumptions	Built into assumptions in future years
Bad Debt Provision	The assumed level of contribution required to the bad debt provision is linked directly to a proportion of rental income in each year which is deemed to be unrecoverable.	1,110	Incorporated into base assumptions	One-Off and built into assumptions in future years
Direct Revenue Financing of Capital Expenditure (DRF)	Revenue funding of capital expenditure will be higher than anticipated in 2018/19 due to lower self-build receipts in year than anticipated.	738,000	0	One-off
Interest earned on HRA Balances	Increased interest due to the level of cash balances held.	(26,850)	Incorporated into base assumptions	One-Off and built into assumptions in future years
Total HRA Summary Account		**(2,950,140)**		
Total Mid-Year Revenue Changes		**(2,950,140)**		
Revised (use of) / contribution to HRA Reserves post MTFS		**(1,527,820)**		

Appendix D (2)

Summary of Early 2019/20 Budget Proposals

HRA Revenue Bids and Savings - 2019/20 Budget

The bids and savings listed below will be subject to review, challenge, further discussion with the Lead Cabinet Member for Hosing and therefore potential change, before they are presented for decision at Cabinet and Council as part of the HRA Budget Setting Report in February 2019.

Category	Bid / Saving	Linked	Bid / (Saving)			
			2019/20	2020/21	2021/22	2022/23
Saving	Review of revenue funded property maintenance budgets and resulting net reduction in spending		(143,970)	(143,970)	(143,970)	(143,970)
Increased Income	To recognise the fee income associated with funding the new additional Development Project Officer roles and pert time Project Support Officer for HRA New Build	A	(113,980)	(113,980)	(113,980)	0
Unavoidable Revenue Pressure	Employment of two Housing Assistants to manage the risk to the Housing Revenue Account due to the role out of Universal Credit		62,710	62,710	0	0
Reduced Income	None		0	0	0	0
Bid	Two additional Development Project Officers to support the work of the Council's Development Team	A	100,950	100,950	100,950	0
Bid	To fund a part time Project Support Officer for HRA New Build	A	13,030	13,030	13,030	0

Bid	Gas & Electrical Safety Compliance Software		15,500	15,500	15,500	15,500
Bid	Reviewing the Response Repairs, Voids and Packaged Works partnering contract in preparation to retender the work		25,000	0	0	0
Bid	Additional staffing resource in the Rent Recovery Team		77,500	77,500	77,500	77,500
Bid	HRA contribution to Communication Team		45,000	45,000	45,000	45,000
Bid	Revenue costs associated with fire door replacement programme		21,000	42,000	63,000	63,000
Total Net Bids / (Savings)			**102,740**	**98,740**	**57,030**	**57,030**

HRA Capital Bids and Savings

Category	**Bid / Saving**		**Bid / (Saving)**			
			2019/20	**2020/21**	**2021/22**	**2022/23**
Capital Bid	Review of capital investment in the housing stock and resulting net increase in investment		183,020	183,020	183,020	183,020
Capital Bid	Fire Door Replacement Programme		180,000	180,000	180,000	0
Total Net Capital Position Bids / (Savings)			**363,020**	**363,020**	**363,020**	**183,020**

Appendix E

2018/19 Mid-Year HRA Capital Budget Amendments

Area of Expenditure and Change	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Housing Capital Plan Expenditure pre HRA MTFS	**25,107**	**19,920**	**16,787**	**14,069**	**13,140**
Improvements – Existing Stock and Other					
Changes in investment assumptions for varying stock numbers	(1)	45	140	245	287
Re-Provision of Existing Homes					
No change	0	0	0	0	0
HRA New Build					
Increase in the budget for Pembroke Way, Teversham based upon the latest cost information	0	17	0	0	0
Inclusion / virement of resource for the scheme at Linton Road, Great Abington	1,302	2,605	0	0	0
Inclusion / virement of resource for the scheme at Grace Crescent, Hardwick	785	3,141	785	0	0
Inclusion / virement of budget for acquisitions recognising the need to spend RTB receipts within deadlines	1,560	0	0	0	0
Changes in unallocated new build budget as specific schemes are identified and receive approval for virement and new pipeline schemes are incorporated into the unallocated budget	(9,361)	617	17,299	6,374	(1,476)
Reduction in unallocated Section 106 new build budget as specific schemes are identified and receive approval for virement	(250)	0	0	0	0
Inflation adjustment where inflation is now built in directly to specific budgets	0	0	0	0	(123)
Other HRA Capital Spend					
Re-phase rollover of budget for Housing Management Information System into 2019/20, when balance of costs are now anticipated	(300)	300	0	0	0
Total Housing Capital Plan Expenditure post MTFS	**18,842**	**26,645**	**35,011**	**20,688**	**11,828**

Appendix F

New Build Investment Cashflow

New Build / Re-Development Scheme	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
Robinson Court Re-Development	910	0	0	0	0	0	0	0	0	0
Pembroke Way, Teversham	483	353	0	0	0	0	0	0	0	0
Pampisford Road, Great Abington	200	0	0	0	0	0	0	0	0	0
High Street, Balsham	1,532	0	0	0	0	0	0	0	0	0
Woodside, Longstanton	249	0	0	0	0	0	0	0	0	0
Bannold Road, Waterbeach	94	0	0	0	0	0	0	0	0	0
Gibson Close, Waterbeach	1,444	0	0	0	0	0	0	0	0	0
Highfields, Caldecote	446	0	0	0	0	0	0	0	0	0
Linton Road, Great Abington	1,302	2,605	0	0	0	0	0	0	0	0
Grace Crescent, Hardwick	785	3,141	785	0	0	0	0	0	0	0
Acquisitions	1,560	0	0	0	0	0	0	0	0	0
Unallocated New Build / Acquisition	610	11,831	26,528	13,160	4,224	5,700	5,700	5,700	5,700	5,700
New Build - Section 106 funded	366	500	500	500	500	500	0	0	0	0
Total Expenditure	**9,981**	**18,430**	**27,813**	**13,660**	**4,724**	**6,200**	**5,700**	**5,700**	**5,700**	**5,700**
Use of Retained Right to Buy Funding										
Pembroke Way, Teversham	(97)	(71)	0	0	0	0	0	0	0	0
Pampisford Road, Great Abington	(45)	0	0	0	0	0	0	0	0	0

New Build / Re-Development Scheme	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
High Street, Balsham	(318)	0	0	0	0	0	0	0	0	0
Woodside, Longstanton	(75)	0	0	0	0	0	0	0	0	0
Bannold Road, Waterbeach	(28)	0	0	0	0	0	0	0	0	0
Gibson Close, Waterbeach	(289)	0	0	0	0	0	0	0	0	0
Highfields, Caldecote	(134)	0	0	0	0	0	0	0	0	0
Linton Road, Great Abington	(282)	(564)	0	0	0	0	0	0	0	0
Grace Crescent, Hardwick	(236)	(942)	(236)	0	0	0	0	0	0	0
Acquisitions	(468)	0	0	0	0	0	0	0	0	0
Unallocated New Build / Acquisition	(137)	(2,662)	(5,969)	(2,961)	(950)	(1,710)	(1,710)	(1,710)	(1,710)	(1,710)
Total Use of Retained Right to Buy Funding	**(2,108)**	**(4,239)**	**(6,204)**	**(2,961)**	**(950)**	**(1,710)**	**(1,710)**	**(1,710)**	**(1,710)**	**(1,710)**
Section 106 Funding										
High Street, Balsham	(105)	0	0	0	0	0	0	0	0	0
Gibson Close, Waterbeach	(97)	0	0	0	0	0	0	0	0	0
Linton Road, Great Abington	(250)	0	0	0	0	0	0	0	0	0
New Build - Section 106 funded	(366)	(500)	(500)	(500)	(500)	(500)	0	0	0	0
Total Section 106 Funding	**(818)**	**(500)**	**(500)**	**(500)**	**(500)**	**(500)**	**0**	**0**	**0**	**0**
Total to be funded from HRA Resources (DRF & MRR) and Sales Receipts	**(7,055)**	**(13,691)**	**(21,109)**	**(10,199)**	**(3,274)**	**(3,990)**	**(3,990)**	**(3,990)**	**(3,990)**	**(3,990)**
Total HRA Borrowing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Appendix G (1)

HRA Summary Forecast 2018/19 to 2022/23

Description	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Income					
Rental Income (Dwellings)	(27,870,400)	(27,469,040)	(28,263,630)	(29,406,350)	(30,505,260)
Rental Income (Other)	(426,990)	(436,160)	(445,110)	(453,820)	(462,690)
Service Charges	(1,001,970)	(1,022,960)	(1,043,440)	(1,063,360)	(1,083,670)
Contribution towards Expenditure	(280,840)	(289,190)	(289,660)	(290,120)	(23,580)
Other Income	(120,320)	(122,970)	(125,550)	(128,060)	(130,620)
Total Income	**(29,700,520)**	**(29,340,320)**	**(30,167,390)**	**(31,341,710)**	**(32,205,820)**
Expenditure					
Supervision & Management - General	4,761,200	4,906,250	4,999,380	5,170,280	5,371,230
Supervision & Management - Special	1,826,420	1,849,210	1,615,560	1,655,540	1,696,580
Repairs & Maintenance	4,133,950	4,228,280	4,394,070	4,392,420	4,522,230
Depreciation – to Major Repairs Res.	6,455,470	6,667,640	6,863,330	7,031,310	7,121,940
Debt Management Expenditure	1,400	1,400	1,430	1,460	1,490
Other Expenditure	318,510	353,270	371,850	396,650	425,030
Total Expenditure	**17,496,950**	**18,006,050**	**18,245,620**	**18,647,660**	**19,138,500**
Net Cost of HRA Services	**(12,203,570)**	**(11,334,270)**	**(11,921,770)**	**(12,694,050)**	**(13,067,320)**
HRA Share of operating income and expenditure included in Whole Authority I&E Account					
Interest Receivable	(598,090)	(498,320)	(368,500)	(299,870)	(346,830)
(Surplus) / Deficit on the HRA for the Year	**(12,801,660)**	**(11,832,590)**	**(12,290,270)**	**(12,993,920)**	**(13,414,150)**
Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance					
Loan Interest	7,178,920	7,178,920	7,178,920	7,178,920	7,178,920
Housing Set Aside	0	0	(4,531,000)	(1,156,000)	0
Appropriation from Ear-Marked Reserve	0	0	0	0	0
Depreciation Adjustment	0	0	0	0	0
Direct Revenue Financing of Capital	4,094,920	11,517,190	12,430,270	6,943,010	318,230
(Surplus) / Deficit for Year	**(1,527,820)**	**6,863,520**	**2,787,920**	**(27,990)**	**(5,917,000)**
Balance b/f	(10,096,300)	(11,624,120)	(4,760,600)	(1,972,680)	(2,000,670)
Total Balance c/f	**(11,624,120)**	**(4,760,600)**	**(1,972,680)**	**(2,000,670)**	**(7,917,670)**

Appendix G (2)

HRA 10 Year Summary Forecast 2018/19 to 2027/28

Description	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income										
Rental Income (Dwellings)	(27,870)	(27,469)	(28,263)	(29,407)	(30,505)	(31,204)	(31,771)	(32,241)	(32,708)	(33,186)
Rental Income (Other)	(427)	(436)	(445)	(454)	(463)	(472)	(481)	(491)	(501)	(511)
Service Charges	(1,002)	(1,023)	(1,043)	(1,063)	(1,084)	(1,104)	(1,126)	(1,149)	(1,172)	(1,195)
Contribution towards Expenditure	(281)	(289)	(290)	(290)	(24)	(24)	(25)	(25)	(26)	(26)
Other Income	(120)	(123)	(126)	(128)	(131)	(133)	(136)	(139)	(141)	(144)
Total Income	**(29,700)**	**(29,340)**	**(30,167)**	**(31,342)**	**(32,207)**	**(32,937)**	**(33,539)**	**(34,045)**	**(34,548)**	**(35,062)**
Expenditure										
Supervision & Management - General	4,761	4,906	4,999	5,170	5,371	5,538	5,718	5,907	6,102	6,302
Supervision & Management - Special	1,826	1,849	1,616	1,656	1,697	1,739	1,782	1,826	1,872	1,919
Repairs & Maintenance	4,134	4,228	4,394	4,393	4,522	4,604	4,694	4,794	4,887	4,981
Depreciation – to Major Repairs Res.	6,455	6,668	6,863	7,031	7,122	7,154	7,194	7,235	7,278	7,322
Debt Management Expenditure	1	1	1	1	1	2	2	2	2	2
Other Expenditure	319	353	372	397	425	455	465	477	488	499
Total Expenditure	**17,496**	**18,005**	**18,245**	**18,648**	**19,138**	**19,492**	**19,855**	**20,241**	**20,629**	**21,025**
Net Cost of HRA Services	**(12,204)**	**(11,335)**	**(11,922)**	**(12,694)**	**(13,069)**	**(13,445)**	**(13,684)**	**(13,804)**	**(13,919)**	**(14,037)**
HRA Share of operating income and expenditure included in Whole Authority I&E Account										
Interest Receivable	(598)	(498)	(368)	(300)	(346)	(435)	(497)	(514)	(531)	(591)
(Surplus) / Deficit on the HRA for the Year	**(12,802)**	**(11,833)**	**(12,290)**	**(12,994)**	**(13,415)**	**(13,880)**	**(14,181)**	**(14,318)**	**(14,450)**	**(14,628)**
Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance										

Loan Interest	7,179	7,179	7,179	7,179	7,179	7,179	7,179	7,179	7,179	7,179
Housing Set Aside	0	0	(4,531)	(1,156)	0	0	0	0	0	0
Appropriation from Ear-Marked Reserve	0	0	0	0	0	0	0	0	0	0
Depreciation Adjustment	0	0	0	0	0	0	0	0	0	0
Direct Revenue Financing of Capital	4,095	11,517	12,430	6,943	318	3,678	3,700	8,649	5,723	6,261
(Surplus) / Deficit for Year	**(1,528)**	**6,863**	**2,788**	**(28)**	**(5,918)**	**(3,023)**	**(3,302)**	**1,510**	**(1,548)**	**(1,188)**
Balance b/f	(10,096)	(11,624)	(4,761)	(1,973)	(2,001)	(7,919)	(10,942)	(14,244)	(12,734)	(14,282)
Total Balance c/f	**(11,624)**	**(4,761)**	**(1,973)**	**(2,001)**	**(7,919)**	**(10,942)**	**(14,244)**	**(12,734)**	**(14,282)**	**(15,470)**

Appendix H

Housing Capital Investment Plan (5 Year Detailed Investment Plan)

Description	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Improvements Existing Stock					
Water / Drainage Upgrades	80	81	83	85	86
Drainage Upgrades	310	340	351	0	0
Disabled Adaptations	849	866	883	901	919
Change of Tenancy - Capital	500	500	500	500	500
Rewiring	484	325	331	338	345
Heating Installation	1,980	2,081	2,123	2,165	2,208
Energy Conservation	1,020	220	241	262	268
Estate Roads, Paths & Lighting	15	15	16	16	16
Garage Refurbishment	52	53	54	55	56
Parking/Garages	86	87	89	91	93
Window Replacement	270	276	282	287	293
Re-Roofing	446	455	464	473	482
Full Refurbishments	200	200	200	200	200
Structural Works	10	10	10	10	10
Non-Traditional Refurbishment	0	0	0	0	0
Asbestos Removal	34	35	35	36	37
Kitchen Refurbishment	743	758	773	788	804
Bathroom Refurbishment	318	325	331	338	345
Assumed adjustment in spend for varying stock numbers	0	19	43	94	53
Total Improvements - Existing Stock	**7,397**	**6,646**	**6,809**	**6,639**	**6,715**
Other Improvements					
Sheltered Housing and Other Stock	110	50	50	50	50
Flats	20	20	20	20	20
Central / Departmental Investment	19	0	0	0	0
Total Other Improvements	**149**	**70**	**70**	**70**	**70**

Description	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Re-Provision of Existing Homes					
Robinson Court, Gamlingay	910	0	0	0	0
Other Re-provision	0	0	0	0	0
Total Re-Provision of Existing Homes	**910**	**0**	**0**	**0**	**0**
HRA New Build / Acquisition					
Pembroke Way, Teversham	483	353	0	0	0
Pampisford Road, Great Abington	200	0	0	0	0
High Street, Balsham	1,532	0	0	0	0
Woodside, Longstanton	249	0	0	0	0
Bannold Drove, Waterbeach	94	0	0	0	0
Gibson Close, Waterbeach	1,444	0	0	0	0
Highfields, Caldecote	446	0	0	0	0
Linton Road, Great Abington	1,302	2,605	0	0	0
Grace Crescent, Hardwick	785	3,141	785	0	0
Acquisitions	1,560	0	0	0	0
Unallocated New Build / Acquisition Budget	610	11,831	26,528	13,160	4,224
Unallocated New Build / Acquisition - Section 106 funded	366	500	500	500	500
Total HRA New Build	**9,071**	**18,430**	**27,813**	**13,660**	**4,724**
Other HRA Capital Spend					
Shared Ownership Repurchase	300	300	300	300	300
Self-Build Vanguard - Up front HRA Land Assembly Costs	745	780	0	0	0
HRA Share of Corporate ICT Development	270	419	19	19	19
Total Other HRA Capital Spend	**1,315**	**1,499**	**319**	**319**	**319**
Total HRA Capital Spend	**18,842**	**26,645**	**35,011**	**20,688**	**11,828**
Inflation Allowance for New Build and Other HRA Spend	0	0	0	0	0
Total Inflated Housing Capital Spend	**18,842**	**26,645**	**35,011**	**20,688**	**11,828**

Description	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Housing Capital Resources					
Right to Buy Receipts	0	0	0	0	0
Other Capital Receipts (Land and Dwellings)	0	0	0	0	0
Other Capital Receipts (Self-Build Plot Sales)	(1,600)	(2,080)	(640)	0	0
Major Repairs Reserve	(6,455)	(6,668)	(6,863)	(7,031)	(7,122)
Direct Revenue Financing of Capital	(4,095)	(11,517)	(12,430)	(6,943)	(318)
Other Capital Resources (Grants / Shared Ownership / S106 funding)	(4,011)	(2,141)	(8,874)	(3,753)	(3,438)
Retained Right to Buy Receipts	(2,108)	(4,239)	(6,204)	(2,961)	(950)
HRA CFR / Prudential Borrowing	0	0	0	0	0
Total Housing Capital Resources	**(18,269)**	**(26,645)**	**(35,011)**	**(20,688)**	**(11,828)**
Net (Surplus) / Deficit of Resources	573	0	0	0	0
Capital Balances b/f	**(573)**	**0**	**0**	**0**	**0**
Use of / (Contribution to) Balances in Year	573	0	0	0	0
Capital Balances c/f	**0**	**0**	**0**	**0**	**0**

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 I

HRA Earmarked & Specific Revenue Funds (£'000)

Self-Insurance Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
Self-Insurance Reserve	(1,000.0)	0.0	0.0	(1,000.0)

Debt Set-Aside (Revenue)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(8,500.0)	0.0	0.0	(8,500.0)

HRA Earmarked & Specific Capital Funds (£'000)

Debt Set-Aside (Capital)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(4,619.7)	(281.4)	0.0	(4,901,1)

Major Repairs Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
MRR	0.0	0.0	0.0	0.0

Appendix J

Business Plan Key Sensitivity Analysis

Topic	Business Plan Assumption	Key Sensitivity Modelled	Financial Impact
General Inflation	General Inflation using CPI of 2% for expenditure long term	Volatility in the economy could lead to an increase in expenditure inflation. Assume CPI for expenditure only of 3% ongoing.	Debt cap is breached by year 28, with inability to set a balanced budget from this point on.
Rents Inflation	1% reduction for 2019/20, then return to CPI plus 1% for 5 years, 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 after 2024/25, so assume CPI only from 2025/26.	Debt cap is breached by year 30, with inability to set a balanced budget from this point on.
Sale of Higher Value Assets	Assumed that payment is deferred until April 2020, with voids held from mid-2019/20	Assume that the primary legislation is repealed and the policy is not implemented at all.	The authority would have sufficient resource to either repay the entire housing debt at maturity, or to re-invest this sum in building new homes.
Direct Payments (Universal Credit)	Bad Debts at 0.5%	Evidence from the pilot authorities for direct payment indicated that collection rates may fall from over 99% to 95%. Assume bad debts at 5% from 2019/20.	There is insufficient resource to fulfil the new build investment aspired to in the next 5 years, so plans would need to be scaled back, or savings found elsewhere.

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

Appendix K

Areas of Uncertainty

Housing Revenue Account – Revenue Uncertainties

Self-Financing for the HRA

Future uncertainty exists about the ability to manage the cashflow and service / re-pay the debt for the HRA in a self-financing environment, particularly in light of rent legislation that now imposes rent levels for the HRA. The debt cap, over which the HRA is not allowed to borrow, currently remains (with the exception of ability to bid for a fixed increase), although additional borrowing represents additional risk if the authority is not in control of its revenue streams.

Right to Buy Sales

The number of sales increased significantly from April 2012, but has now slowed and remains relatively consistent. The implications of continuation of sales at current levels from a revenue perspective are significant, with the potential loss of rental income being the major factor, unless lost units can be replaced with new build homes.

Right to Buy Retention Agreement

The resource currently retained in respect of 1-4-1 receipts continues to prove challenging to invest within the required timescales. Sufficient resource is included in the capital plan to ensure that existing retained receipts can be appropriately re-invested, subject to identifying and securing suitable schemes. The potential interest that will be payable if the receipts are not utilised within the agreed 3-year period has not been incorporated into the HRA revenue projections. The outcome of a consultation surrounding changes to the rules around use of right to buy receipts is yet to be published.

Welfare Reforms

The negative impact that the introduction of Universal Credit may have on the level of rent arrears and bad debts within the HRA is still unquantifiable, although indications from earlier adopters are that it will be significant.

HRA New Build

Although the current new build programme is progressing well, the lead in time between site identification and start on site is significant, and not all potential schemes are able to progress as anticipated at the outset. Delays in delivery, compared with the assumptions in the financial forecasts have the potential to impact negatively upon rental income. If any individual development scheme does not proceed, the initial outlay needs to be treated as revenue expenditure, but without the anticipated payback that the capital investment would have resulted in. Until schemes are approved, in contract, and have appropriate planning permission, there are still uncertainties over final costs and dwelling numbers, which could impact the HRA in terms of borrowing costs and anticipated rental streams.

National Rent Policy

The change in national rent policy, with what was previously rent guidance, now being legislation, required rent reductions of 1% per annum from April 2016 for four years. Although a return to increases of CPI plus 1% has been confirmed for the following 5 years, there is no indication of whether this will be legislatively imposed or what will happen from April 2025.

Housing Revenue Account – Revenue Uncertainties

Compulsion to Sell Higher Value Homes Levy

The Housing and Planning Act allowed the introduction of an annual levy, representative of the proportion of high value homes which may become vacant in any one year. In addition to the loss of rental income, the process to dispose of a large number of assets in any one year would be costly and administratively burdensome. It is likely, based upon the content of the Housing Green Paper that the secondary legislation required will not be passed, and the primary legislation may be repealed.

Pay Review

South Cambridgeshire District Council employees are subject to a local pay agreement, with 1% per annum assumed for 2018/19, and an earlier return to the previous assumption of 2% from April 2019. There is a risk that nationally agreed pay settlements may exceed the proposals made locally, based upon government indications and union demands, which may bring into question the assumptions made in respect of a local agreement.

Housing Revenue Account - Capital Uncertainties

Health and Safety Legislative Changes (Incl. External Wall Insulation / Cladding)

Recommendations for improved fire management practices and possible changes to building standards generally are now materialising, with further changes still anticipated. It is too early to know the full extent to which these changes will apply to the Council's HRA communal properties. Revised guidance and emerging legislative changes or best practice advice is being kept under close review, with external specialist advice to be used to improve our overall fire management practices where appropriate.

Right to Buy Sales and Retained Right to Buy Receipts

Interest in right to buy has been broadly maintained in the last two years. Under the terms of the agreement signed with CLG, the authority is currently committed to invest the receipts in new homes within 3 years of the date of the retained 1-4-1 receipt, with this funding meeting no more than 30% of the cost of the dwelling. Although sufficient top up funding has been identified to match fund exciting retained right to buy receipts, reliance is being placed on the sale of self-build plots to release resource elsewhere in the HRA to provide this funding and there are also challenges in identifying schemes that can deliver within the required timeframes. Receipts may be paid over to central government at the end of each quarter, unless there is demonstrable resource available to provide the top up funding required, or a clear indication that a registered provider in the locality could spend the receipt appropriately on the authority's behalf.