Housing Revenue Account Medium-Term Financial Strategy

November 2015

2015/16 to 2044/45

South Cambridgeshire
District Council

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Section 1
Background

Background

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

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

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

Section 2
The National Policy Context and External Factors

External Factors

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

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

Inflation Rates

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

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

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

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

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

Interest Rates on Lending

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

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

The latest interest rate assumptions are included in Appendix A.

Interest Rates on Borrowing

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

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

Right to Buy Sales

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

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

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

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

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

Right to Buy Receipts

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

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

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

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

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

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

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

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

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

National Housing Policy

National Rent Setting Policy

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

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

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

Market Rents for Higher Income Households

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

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

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

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

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

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

Mandatory Disposal of High Value Housing Stock

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

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

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

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

Welfare Reforms

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

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

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

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

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

Section 3
Revenue Resources – Rent and Other Income

Rent Arrears and Bad Debt Provision

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

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

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

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

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

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

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

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

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

Void Levels

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

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

Rent Restructuring

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

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

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

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

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

Rent Policy and Rent Setting

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

These changes include:

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

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

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

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

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

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

For the purposes of business planning, the view is being taken that rent increase will be re-introduced at current levels after the four year rent reduction period, and although this view is supported by professionals in the housing advisory sector, there is no guarantee that it will be the case.
An amendment to the legislative changes being made as part of the Welfare Reform and Work Bill 2015 will allow the transition of void properties directly to target rent, less the 1% rent reduction applicable in each year. This assumption has been incorporated into our financial planning.

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

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

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

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

Section 4
Capital - Existing Stock and New Build

Stock Condition / Decent Homes

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

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

Stock Investment

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

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

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

New Build & Re-Development

General Approach

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

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

New Build Schemes in Progress or in the Pipeline

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

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

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

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

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

Self-Build Vanguard

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

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

Housing Development Agency and City Deal

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

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

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

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

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

Section 5
Summary and Conclusions

HRA Budget Strategy

The Budget Process

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

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

Approach to HRA Savings

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

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

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

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

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

Base Assumptions

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

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

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

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

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

HRA MFR Conclusions

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

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

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

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

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

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

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

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

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

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

Appendix A

Business Planning Assumptions

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

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

Appendix B

Retained 1-4-1 Right to Buy Receipts

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

Appendix C

New Build / Re-Provision Investment Committed Schemes Cashflow

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

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

Appendix D

HRA Indicative Summary Forecast 2015/16 to 2019/20

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

Appendix E

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

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

Description	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Robinson Court, Gamlingay	0	447	1,790	0	0
Other Re-provision	1,200	753	-1,040	700	500
Total Re-provision of Existing Homes	**1,200**	**1,200**	**750**	**700**	**500**
HRA Acquisition and New Build					
Property Acquisition	190	0	0	0	0
Fen Drayton Road, Swavesey	2,314	204	0	0	0
Horseheath Road, Linton	339	155	0	0	0
Hill Farm, Foxton	170	2,038	0	0	0
Balsham	0	1,301	434	0	0
Wilford Furlong,Willingham	0	0	0	660	0
Total HRA New Build	**3,013**	**3,698**	**434**	**660**	**0**
Other HRA Capital Spend					
Shared Ownership Repurchase	300	300	300	300	300
Self-Build Vanguard - Up front HRA Land Assembly Costs	150	0	0	0	0
Total Other HRA Capital Spend	**450**	**300**	**300**	**300**	**300**
Total HRA Capital Spend	**14,368**	**14,160**	**10,570**	**10,923**	**10,191**
Inflation Allowance for New Build and Other HRA Spend	0	167	110	323	308
Total Inflated Housing Capital Spend	**14,368**	**14,327**	**10,680**	**11,246**	**10,499**
Housing Capital Resources					
Right to Buy Receipts	0	0	0	0	0
Other Capital Receipts (Land and Dwellings)	0	0	0	0	0
Major Repairs Reserve	(4,512)	(7,107)	(8,232)	(8,408)	(8,567)
Direct Revenue Financing of Capital	(8,004)	(5,237)	(2,018)	(2,340)	(1,632)
Other Capital Resources (Grants / Shared Ownership / R&R Funding)	(300)	(300)	(300)	(300)	(300)
Retained Right to Buy Receipts	(904)	(1,109)	(130)	(198)	0
HRA CFR / Prudential Borrowing	0	0	0	0	0
Total Housing Capital Resources	**(13,720)**	**(13,753)**	**(10,680)**	**(11,246)**	**(10,499)**

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

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

Appendix F

Business Plan Key Sensitivity Analysis

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

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