COLCHESTER	**Appendix A** **Cabinet** **29th January 2020**	**Item**

Report of	**Assistant Director for Place and Client Services**	**Author**	**Darren Brown** **☎ 282891**
Title	**Housing Revenue Account Estimates 2020/21**		
Wards affected	**All**		

This report presents the Housing Revenue Account (HRA) estimates for 2020/21, the Medium Term Financial Forecast (MTFF) for 2020/21 to 2024/25, and the 30 Year HRA financial model

1. Executive Summary

1.1 This report sets out the Housing Revenue Account budget for 2020/21, including proposals for changes to tenants rents for the coming financial year, and the management fee payable to Colchester Borough Homes. It includes at Appendix C a forecast of the potential expenditure requirements and income projections for the HRA for the next 5 years, and the updated 30 year HRA financial model at Appendix E.

2. Recommended Decision

2.1 To approve the 2020/21 HRA revenue estimates as set out in Appendix A.

2.2 To approve dwelling rents as calculated in accordance with central Governments rent policy (set out in paragraph 5.8).

2.3 To approve the HRA revenue funded element of £6,962,500 included within the total management fee for Colchester Borough Homes (CBH) (set out in paragraph 5.15).

2.4 To note a revenue contribution of £2,716,000 to the Housing Investment Programme is included in the budget (paragraph 5.31).

2.5 To note the HRA balances position in Appendix B.

2.6 To note the Medium Term Financial Forecast (MTFF) set out at Appendix C and the 30 Year HRA financial position set out at Appendix E.

3. Reasons for Decision

3.1 Financial Procedures require the Assistant Director for Place and Client Services to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

4. Supporting Information

Key Issues for 2020/21

4.1 There are a number of key issues relating to the HRA budget for 2020/21, with further details being included within the main body of the report. However, in summary they are as follows;

- This is the first year when rent increases will return to the Government's formulaic increase of Consumer Price Index (CPI) + 1%, following the imposed rent reduction of 1% from 2016/17 to 2019/20.
- A revised Asset Management Strategy was produced as a result of the Housing Futures Programme, and the outputs have been included in this report and the Housing Investment Programme report elsewhere on the agenda. The Council will review its Asset Management Strategy in 2020 following the end of the Governments 4 year rent reduction policy.
- This is the seventh HRA budget to be set under the terms of the new management agreement with CBH. The management fee consequently contains a larger range of budgets, and the budget is set with an emphasis on the medium term, to provide more stability and meet the governance arrangements within the new management agreement.
- This is the seventh HRA budget to be set in the context of the new 30 year HRA Business Plan, which was approved by Cabinet at its meeting on the 27th November 2013. The budget therefore reflects the strategic priorities identified within the HRA business plan.
- This is the ninth year of HRA Self-Financing, which radically altered the funding of Council Housing, and the investment in the housing stock and other projects is reflected in this report and the Housing Investment Programme report included elsewhere on the agenda.
- The project to replace the current Housing Management IT system is underway, with the majority of the investment required in 2020/21.

Prudence

4.1.1 This report and the 2020/21 Housing Investment Programme included elsewhere on the agenda reflect significant capital spending plans over the next 5 years, reflecting the clear signal and expectation from Government that Councils will increase the supply of Council housing through new build etc, following the abolition of the HRA debt cap. For information, the Councils housing stock at 1st April 2019 totalled 5,900 dwellings, with a balance sheet value of £371.4million.

4.1.2 In April 2012, the Council took on circa £75million of debt, determined as affordable by the Government under the HRA Self-Financing settlement. In the years thereafter, any new investment and its affordability has been assessed as part of the update of the 30 year HRA Business Plan. As set out in this report, the current and further planned investment and associated borrowing cost continues to be affordable, as demonstrated by the interest cover ratio in paragraph 5.29.

Housing Rents

4.2.1 The Governments 4 year rent reduction period ended in 2019/20, and the Government has already announced that rents will revert to the previous formulaic increase for a period of 5 years. Therefore, rents will increase by Consumer Price Index (CPI) + 1% from 2020/21 to 2024/25, which means we are continuing to set **dwelling rents within Communities and Local Government (CLG) guidelines and so the annual increases in rents paid by tenants are set by reference to national Government policy.** The Government expects local authorities to apply rent restructuring to all their HRA properties, and is the assumption the Government made when establishing the amount of debt we would take on under HRA Reform. As a reminder, the aim is that social rents reflect the condition and location of properties, local earnings and property size. Each property continues to have a target rent calculated using the Government's formula, and this increases annually by the September CPI figure + 1.0%. Rents are able to be moved to target rent when the property becomes empty, and there are caps in place to protect tenants from very large increases.

4.2.2 There is no information to suggest what will happen to rents after 2024/25, but the assumption within the MTFF and 30 year Business Plan is that rents will continue to increase in line with the Consumer Price Index (CPI) + 1%.

4.3 As part of the process for setting the 2020/21 HRA budget, it is necessary to revisit the 2019/20 position to forecast the predicted level of HRA balances along with identifying any risk areas or cost pressures which could have an impact in future years.

2019/20 Revised Housing Revenue Account

4.4 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2019/20. There have been some amendments to the original budget for 2019/20 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2019/20:-

Reconciliation between Original and Revised 2019/20 HRA Budget

	Budget 19/20	***Commentary***
	£'000	
Original Budget Deficit	**-**	Agreed 30th January 2019
2018/19 Budgets c/fwd	191	Agreed by Assistant Director of Policy and Corporate
Revised Budget Deficit	**191**	

2019/20 Forecast Outturn Position

4.5 When considering the financial position of the HRA, in addition to the adjustments to the 2019/20 original budget shown in the above table, it is important to note the 2019/20 forecast outturn position. It is currently predicted that the HRA will be on budget at the year-end. The table below provides a breakdown of this net position. In addition, commentary is provided on the major variations;

	Outturn 19/20
	£'000
Employee costs	(14)
Net Rental & Tenants Service Charge Income	283
One-off/Technical Items	
Revenue Contribution to Capital (RCCO)	(269)
Forecast 2019/20 Outturn Variance	**-**

- It is forecast that we will receive less rental and tenants service charge income of £283k. This primarily reflects the net impact of rental & service charge income being lost from dwellings and garages than assumed within the budget, through a combination of voids and the level of Right to Buy sales, along with the timing of acquisition and additions to our housing stock. The net impact of the HEYLO scheme no longer going ahead is also reflected in this forecast.

- As a result of the income forecast this financial year, a reduced Revenue Contribution to Capital of £269k to fund the Housing Capital Programme in 2019/20 is forecast.

4.6 To provide a further explanation of the forecast outturn position, the funding of the Housing Investment Programme considered elsewhere on the agenda is derived from a number of sources. After firstly taking into account depreciation, grants and capital receipts etc, the remaining sources of funding are revenue resources from the HRA as detailed in this report, then finally borrowing in the form of new loans. Any opportunity to forego new borrowing so that interest costs can be minimised should be taken.

HRA Reform

4.7 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2020/21 budget therefore reflects the ninth year of operating within this financial regime for the HRA, with commentary included on the medium and long-term outlook in this report.

4.8 Appendix E summarises the 30 year financial modelling for Colchester's HRA. This is set out using the standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. Further information is provided at paragraph 7, including some of the underlying principles and assumptions that are included. Given the long time-span this modelling covers, it will clearly change as time progresses as both internal and external influences have an impact. However, what it does provide is an indication of the long-term viability of the Council's HRA, given the assumptions made and the plans the Council has already identified and committed to.

5. 2020/21 Housing Revenue Account Budget

5.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2020/21. This shows a predicted HRA deficit of £500k, which represents a planned use of HRA balances.

5.2 It should be noted that the MTFF included within the 2019/20 HRA budget cycle and considered by Cabinet on 30th January 2019 estimated a break-even budget for 2020/21. Although this is now showing as a deficit, this simply reflects that we are planning to use HRA balances that have been specifically earmarked to fund the replacement of the Housing Management system.

Balances

5.3 The prudent level of uncommitted balances for the HRA is currently £1,600k. This recognises the transfer of risk from Central to Local Government resulting from HRA Reform, as well as providing for any adverse effects of inflation, interest rates, or Right To Buy sales on the HRA. Whilst there is certainty around interest rates given we have secured long-term fixed rates on our HRA Reform settlement debt, the abolition of the debt cap and our plans to borrow does bring a risk relating to increasing interest rates. The risk surrounding welfare reform continues to be recognised in our assessment of HRA balances.

5.4 A risk assessment has been undertaken to review the minimum prudent level of HRA uncommitted balance the Council should maintain. The results of this review are set out at Appendix D and show that it would be reasonable to retain the uncommitted balance at £1,600k. This will continue to be reviewed annually.

5.5 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2021 is £1,600k, which is equal to the recommended prudent level. This means we are now running the HRA at the minimum prudent level of revenue balances, and any additional cost or saving that might arise could impact on the amount of any new borrowing undertaken.

5.6 The budget at Appendix A shows that we are using as much of our revenue balances as possible to make a Revenue Contribution to fund the Housing Investment Programme. This is because it is deemed to be a more economical use of resources, rather than fund the capital programme by undertaking additional borrowing and thus incurring additional borrowing costs. This fits with the prioritising of resources indicated in this report and in the Housing Investment Programme elsewhere on the agenda. From 2020/21 thereafter, the assumption is that where required, revenue contributions to the capital programme will be made up to the point that the minimum recommended level of balance is reached.

5.7 Members will be aware that we are replacing our Housing Management system, which means a significant level of investment is required in 2020/21. This includes the cost of purchasing and implementing the system, aswell as the cost of running the project, which is being undertaken jointly by officers from the Council and CBH. We have been earmarking resources for this purpose in recent years, therefore it is intended to use £500k of HRA balances to partially support the one-off investment required in 2020/21 for this project.

Income

Housing Rents

5.8 By following the rent increase formula, we are continuing to set **dwelling rents within Communities and Local Government (CLG) guidelines and so the annual changes in rents paid by tenants are set by reference to national Government policy.** The average rent proposed for 2020/21 is £87.43 per week compared to a current average of £85.13, an increase of £2.30 (2.7%) per week. It is difficult to anticipate future rent increases after 2020/21, given the potential for the rate of inflation to vary in the short to medium term and also for any further changes in Government rent policy. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates.

5.9 Sales of council houses under the Right to Buy (RTB) scheme could reach 30 this year (29 sold in 2018/19 and 46 sold in 2017/18), which is in-line with the number included in the 2019/20 HRA budget. The level of sales has levelled out in recent years, therefore the 2020/21 budget has been set assuming the sale of 30 properties, being broadly in line with the current year. The MTFF and longer term modelling does not assume a reduction in the number of sales until 2023/24. However, these assumptions will be reviewed annually as part of our future budget setting.

5.10 The budget for 2020/21 has been set using the assumption that there will be a loss of rental income of 1.50% resulting from empty properties. This is consistent with the 2019/20 budget and is intended to provide for any additional void loss that may arise as a result of the various changes being undertaken within the housing stock.

5.11 Given the abolition of the debt cap, Cabinet has already agreed plans to increase our Council Housing stock, through a combination of new build and acquisitions. The 2020/21 budget includes an estimate for the additional rental income these measures will generate.

Other Income

5.12 The rents for garages are included in the fees and charges report agreed by the Portfolio Holder for Housing and Communities, and continues the policy that reflects a pricing strategy based on market forces.

5.13 There are a range of other fees and charges for services which are made to Tenants and Leaseholders, which are agreed by the Portfolio Holder. The budget for 2020/21 assumes that the demand for these services will remain the same as the current financial year, unless mentioned otherwise.

5.14 The de-pooling of service charges to individual tenants was implemented in 2008/09. There have not been any new service charges introduced for 2020/21, only an update of existing charges to reflect the actual cost of the services provided.

Expenditure

Colchester Borough Homes Management Fee

5.15 As part of the new management agreement which commenced in August 2013 between the Council and CBH, the management fee has been expanded to reflect the wider range of services CBH now provides on behalf of the Council. The fee incorporates the day to day repairs and maintenance budgets and associated overheads, along with the fee for managing the capital programme, as a result of the new housing arrangements. The management fee is funded from several sources within the Council's accounts, namely the Housing Revenue Account, the Housing Investment Programme, as well as the Council's General Fund. The following table analyses the total CBH management fee, and provides details of where the funding is shown in the Council's overall budget:

Breakdown of 2020/21 CBH Management Fee

	Budget 20/21	***Funding Source***
	£	
CBH Management costs	3,652,500	CBH Ltd Management Fee at Appendix A
R&M Management Fee	528,000	Included in Repairs & Maintenance at Appendix A
R&M Works	2,782,000	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**6,962,500**	
Capital Fee	1,371,700	Included within the 2020/21 Housing Investment Programme
Sub-Total: HIP	**1,371,700**	
Anti-Social Behaviour Team	49,500	Included within the 2020/21 General Fund Budget
Professional Support Unit	126,000	Included within the 2020/21 General Fund Budget
Housing Options Team	648,600	Included within the 2020/21 General Fund Budget
Facilities Management/ Engineering Team	520,200	Included within the 2020/21 General Fund Budget
Housing Systems Team	85,600	Included within the 2020/21 General Fund Budget
Sub-Total: General Fund	**1,429,900**	
Total Management Fee	**9,764,100**	

5.16 The base management fee for 2020/21 includes an allowance for pay inflation, along with an increased provision following a review of the cost of services CBH buys-in from the Council.

5.17 Members will be aware that at its meeting on the 27th November 2013, Cabinet approved the Council's 30 year HRA Business Plan. The 2020/21 budget and management fee include the continuation of a number of service enhancements, which reflect the strategic priorities identified by Cabinet and which are included within the business plan. The majority of these are incorporated within the existing CBH Management Fee and Council budgets, with additional resources being directed in particular to supporting tenants.

Management Costs

5.18 The 2020/21 HRA budget includes £7,262,900 for management costs, an increase from 2019/20 (£5,993,300). Management costs form a substantial part of the HRA annual expenditure, and they consist of budgets managed directly by the Council, as well as those which are managed on behalf of the Council by CBH. Further information along with an explanation for any material changes from the 2019/20 budget is given in the following paragraphs;

5.19 The budget for Premises costs has decreased by £48,500 for 2020/21. The provision for the revenue costs of the HEYLO Housing scheme has been removed, as the scheme is no longer going ahead. There has been an increase in the budgets for utilities, reflecting an update on usage and pricing, aswell as increases for budgets relating to Grounds Maintenance budgets and Cleaning contracts.

5.20 The budget for Supplies and Service costs has increased by £748,200. The provision in the 2019/20 budget to replace our Housing Management system has been increased by £650,000 for 2020/21, to meet project and implementation costs. These costs will fall-out in the 2021/22 budget. The new system provides us with a solution that meets the Councils ICT strategy, is fully supplier hosted and also meets the current and future business needs of CBH and our customers. Investment is also being made in replacing existing IT kit, and office 365 licence costs.

5.21 The budget for Removal and Disturbance payments has been increased by £50,000 as a provision for the refurbishment programme at Elfreda House.

5.22 The HRA receives a significant level of recharges from other Council services, along with a proportion of central support costs, such as Corporate and Democratic Core and Pension costs associated with the back-funding of the scheme. The total budget for 2020/21 has increased by £525,700 from 2019/20. This primarily relates to an additional cost of £495,000, which reflects the continued approach of paying 3 years pension deficit funding contributions "up-front", which results in an overall saving over 3 years. This is the same approach adopted within the Councils General Fund budget for 2020/21, which is considered elsewhere on the agenda. The budget will reduce back down for 2021/22 & 2023/23.

Repairs and Maintenance

5.23 The 2020/21 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £5,334,400 has been included in the budget for repairs and maintenance (compared to £5,156,400 in 2019/20), of which £3,310,000 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,795,000 is included in the budget for those works which are managed by CBH on behalf of CBC, such as external decorating and gas servicing, but where CBC still hold the contract. The balance of the budget is for works to sewage pumping stations, temporary accommodation and other CBH delegated areas. The revenue budget provides for repairs that are undertaken on a responsive basis, as well as works to void properties, and maintenance which is carried out under a planned programme such as external decorating and gas servicing.

Capital Financing Costs

5.24 The budget includes the statutory charges to the HRA for the interest costs of the Councils borrowing in respect of the housing stock. This represents a significant proportion of the Councils HRA expenditure each year. It is worth noting that any new borrowing to fund the overall Housing Investment Programme next year may be borrowed internally from the Councils General Fund, subject to the levels of borrowing required and funding available, which is at a lower rate than would be payable were we to borrow externally. This also delivers a benefit to the General Fund, as it would be receiving more interest than it would attract were it to invest externally. This approach has been considered and agreed as part of the Council's treasury management strategy.

5.25 No provision has been made at this point in time for the annual repayment of any HRA debt, as there is no statutory duty to provide for it. The Council though is statutorily responsible for self-managing its long-term indebtedness. The Council now has circa £130million of housing debt, and it would be prudent to start to consider providing for some repayment in the future. The Treasury Management Strategy Statement approved by Cabinet on 25th January 2012 stated "That the Council plans to make Voluntary Revenue Provisions (VRP) for the repayment of HRA debt to enable maturing debt to be repaid, whilst ensuring that this does not create an adverse impact on the business case". However, this also needs to be considered alongside the investment requirements of the housing stock, and the clear message from Government that local authorities are expected to increase their Council housing stock to help address the housing crisis.

5.26 Given the need to undertake additional HRA borrowing to support the Housing Investment Programme over the next 5 years, it would currently seem impractical to set-aside revenue resources for debt redemption over this period of time, which as a result would leave a funding gap which would need to be met by further borrowing (and hence incur additional revenue interest costs). However, this should be considered each year as part of the Councils annual budget setting process and review of the 30 year HRA financial model. Given the medium term investment needs currently identified and priorities agreed by Cabinet, it is proposed that no voluntary provision for debt repayment is included in the 2020/21 budget or MTFF at this point in time.

5.27 The 2020/21 Housing Investment Programme report included elsewhere on the agenda contains significant capital spending plans over the next 5 years, directly as a result of the Governments abolition of the HRA debt cap and the clear signal and expectation that Councils will increase the supply of Council housing through new build etc. This expenditure will be funded through a combination of using our retained 1-4-1 Right To Buy receipts, and prudential borrowing. The Councils General Fund is already able to borrow using prudential borrowing, so the HRA is simply now being treated consistently.

5.28 The Councils Treasury Management Strategy is included elsewhere on the agenda, and contains prudential indicators which assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances, and include the HRA. It is also proposed to continue using the following indicator within this report, which is a measure also adopted by Registered Providers to demonstrate how easily they can pay their interest costs:

5.29 **Interest Cover Ratio.** This indicator identifies the ability of the net operating surplus in the HRA to meet the interest costs of HRA debt. It would be reasonable to expect this indicator to be in the region of 1.50 or above.

18/19 Actual	19/20 Estimate	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate	24/25 Estimate
1.63	1.46	1.49	1.63	1.54	1.51	1.53

Revenue Contributions to Capital Outlay (RCCO)

5.30 The Council has continuously made revenue contributions to capital spending recognising the significance of targeting resources to invest in our Housing Investment Programme. Given the regime of HRA self-financing and the additional revenue resources subsequently generated, the Council is able to make significant revenue contributions to support the capital investment included within the Housing Investment Programme.

5.31 The revenue contribution included in the estimates is £2,716,000. The majority of this budget is to support the capital work programmes to the housing stock in 2020/21, which are included within the Housing Investment Programme report elsewhere on the agenda. However a provision of £140,000 has been included for ICT, which is intended to support various projects, most notably the replacement of the existing Housing Management system.

Risk areas and budget review process

5.32 Some of the key variables that may impact during the year are shown in the table below:-

Area	Comment
Rental Income	The budget makes assumptions on the future level of Right To Buy sales and void levels. These are to a certain extent demand led and due to the significance of Rental Income within the HRA, can have a significant effect on the level of the HRA balance. Furthermore, the risk exists that the Government could change rent policy unexpectedly, as demonstrated by the rent reduction announcement in 2015.
Governments Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. As well as providing for transaction costs etc, the budget also includes an estimate of the potential impact upon rent arrears and consequently the level of bad debts provision we would need to maintain.
New Build	The budget makes assumptions on the numbers of new properties being built, the amount and timing of expenditure, and the amount of borrowing required. These factors can all change as schemes progress.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Capital Resources have been provisionally allocated for 2020/21 within the Housing Investment Programme report contained elsewhere on the agenda. If these resources prove insufficient, then options exist to either finance capital expenditure from revenue, or undertake additional HRA borrowing. Clearly, if one of these options was pursued, then there will be a requirement to find additional resources from the HRA.
Repairs and Maintenance	Historically, this is an area where pressure has existed on budgets such as Responsive and Void repairs, given that they are demand-led. However, in recent years this has become less of a risk. These budgets now form part of the CBH Management Fee, and the terms of the management agreement specify that CBH will be liable for any overspend

Area	Comment
	up to a maximum of £200k per year, but also that they may retain any underspend up to £100k per year. Therefore, there could be a reduced impact on the HRA of variations in expenditure.
Utility costs	The budget makes assumptions on future prices for Gas and Electricity that are consumed within the Council's housing stock, such as Sheltered Schemes, Temporary Accommodation and Communal entrances in blocks of flats. Given the volatility of utility prices in recent years, there is a risk that prices could rise, the cost of which would have to be funded from existing resources or HRA balances.
2019/20 Outturn	An overspend of £269k is currently predicted for this year, which means a greater proportion of our Housing Capital Programme will be funded from new borrowing. Any variance on the forecast will result in a higher or lower RCCO, which will have a knock-on impact on the amount of any new borrowing undertaken.

5.33 As shown in paragraph 5.32 above several key variables have been identified. It is therefore essential that a programme of formal reviews of the HRA be set out to provide an opportunity to make changes to resource allocations during the year. The following schedule therefore sets out a suggested framework for these reviews.

Review	Comment
March 2020	Updated outturn forecast.
July 2020	Provisional pre-audit outturn / current year issues etc.
September 2020/ October 2020	Mid-year review.
December 2020 / January 2021	Outturn review / Budget 2021/22.

6. Supporting Information - Medium Term Financial Forecast (MTFF)

6.1 As part of the budget process for 2020/21 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2020/21 to 2024/25. Although we are operating under the HRA Self-Financing regime, and more certainty is now in place, assumptions still have to be made around inflation rates, void levels, bad debts and increases in costs etc, which can of course change. To that extent, the MTFF should still be viewed as indicative.

6.2 Appendix C sets out the MTFF for the period analysed by the main areas of expenditure and income. This shows that the level of uncommitted HRA balance is able to be maintained at prudent levels throughout the MTFF. This is after meeting all the running costs of managing & maintaining the housing stock, along with servicing the borrowing costs on all HRA debt. It is also after substantial revenue contributions have been made to support the Housing Investment Programme. Planning to run the HRA balance at the minimum prudent level fits with the principle that it is more cost effective to minimise/reduce borrowing costs where possible, rather than hold a higher revenue balance than is prudently required, whilst also providing reassurance to tenants and residents that the Council is wisely managing its finances and its housing stock. This approach fits with the principle referred to in paragraph 5.6 above. The recommended level of uncommitted balance on a risk based approach is £1,600k. There are several factors which can affect the forecast position, namely:-

- ***Capital financing***

Given the treasury management strategy relating to our HRA Reform debt settlement was to borrow at fixed interest rates, this means we are able to plan with certainty into the long-term surrounding the financing costs of this debt. The MTFF includes assumptions on the interest rate we will have to pay on the further HRA borrowing that would need to be undertaken to support the Housing Investment Programme, included elsewhere on the agenda. Given that any future additional borrowing would be undertaken at the prevailing interest rates at the time, for the purposes of the MTFF a reasonable assumption has been made on what those rates might be. This will be reviewed as part of the annual budget setting process.

- ***Debt Repayment***

As a result of the Governments “Re-invigorating the Right To Buy” policy in 2012, Councils are selling more properties than Government assumed as part of the original HRA Reform debt settlement in April 2012. The Government therefore introduced a system which shares capital receipts. Part of this sharing enables Councils to re-invest capital receipts in the replacement of these additional sales (namely 1-4-1 RTB receipts). It also allows Councils to retain a proportion of capital receipts to reduce HRA debt, which are held in a separate reserve. The logic being that each property in the HRA supports the overall level of HRA debt through its net rental income (excess of rental income over running costs). Therefore, if we didn’t reduce debt, it would mean our HRA Business Plan would have debt but without the necessary number of dwellings to service that debt as a result of their sale. Therefore by reducing debt, we would reduce our interest costs payable and be able to maintain existing levels of services to tenants and leaseholders. Put another way, if we did not reduce our debt, an increasing proportion of tenants rental income would be spent on interest costs, with a decreasing proportion being spent on existing services.

The next opportunity to repay debt is in May 2020, when a £17.6million loan matures. It has been forecast that there will be circa £6million in the debt repayment reserve at that point in time. Therefore, at the time of maturity, it is assumed that we will re-finance and use the resources in the reserve so we can borrow a lower figure. Using these figures, it would mean we would take out a new loan of £11.6million. Hence our overall level of debt would reduce by £6million and there would be a saving to the HRA as interest costs payable would be lower, due to the lower level of debt and the projected borrowing rate being considerably lower than that of the current loan.

- ***Rental income***

From 2020/21, the MTFF reflects the Governments announcement that rent increases will return to the previous formula of CPI + 1% up until 2024/25. There has been no indication from Government what rent policy would be after that year. The assumptions on the number of Right To Buy sales and the level of anticipated rent lost through void properties have been updated to reflect recent activity, but once again these are areas which can significantly alter the forecast of Rental Income and are to a certain extent demand led.

- ***Welfare Reform***

Continued provision has been made within the MTFF for the estimated potential effect on levels of rent arrears and bad debts, resulting from the introduction of Welfare Reform by the Government. The contribution to the provision for bad debts has been broadly maintained at the level for 2019/20 going forwards, with the level of provision being reviewed annually as part of the budget setting process.

6.3 The MTFF therefore provides a baseline position against which to make decisions as to the allocation of HRA resources and to determine the budget strategy over the next 5 years. The MTFF will be updated on a regular basis.

7. Supporting Information – 30 Year Financial Modelling

7.1 The implementation of HRA Reform in 2012 brought the expectation that Councils will take a greater business planning role when managing their Housing Revenue Account. Cabinet approved the Councils 30 year HRA Business Plan at its meeting on 27th November 2013. This included a 30 year financial model which set out the long-term position of the Councils HRA, using 2013/14 as the base year. As part of the 2020/21 budget setting process, this model has been refreshed and updated. This is summarised at Appendix E. This is set out using a standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. It incorporates expenditure & income for both revenue and capital, along with the HRA balances and debt position.

7.2 The information provided by the model for future years should be viewed as indicative. This is because a number of assumptions have to be made when projecting into the future, and the following paragraphs give some further details on these. Given the potential for these to vary, the impact upon the modelling could result in an improvement or decline in the position shown, dependant on the size of change and the degree of impact upon the plan. However, prudent assumptions are made wherever possible to protect the Councils financial position and to ensure the ongoing viability of the HRA.

7.3 Officers have undertaken sensitivity analysis on the 30 year model to evaluate the impact any change or combination of changes in the assumptions could have. Further information on the work undertaken is provided at paragraph 7.24.

Income Assumptions

7.4 One of the key drivers within the financial model is inflation. This is the factor which determines future annual rent increases for tenants, and it is this income which we are able to retain in the future to meet the increased stock investment and additional borrowing costs resulting from our increased debt arising from HRA Reform.

7.5 The Government announced that when the 4 year period of rent reductions ends, rents would revert to the previous formulaic increase for a period of 5 years. Therefore, rents will increase by Consumer Price Index (CPI) + 1% from 2020/21 to 2024/25. For the purposes of Business Planning, it has been assumed this formulaic increase will continue from 2024/25 for the remaining duration of the 30 year model. There is currently no indication to suggest that this is going to alter. As a reminder to members, a change in rent policy is the example the Government at the time quoted within the HRA Reform debt settlement that would possibly re-open the original debt settlement. However, this did not occur. Therefore, Colchester along with all other housing authorities nationally, entered into the new self-financing HRA arrangements at the time on the basis that the Government was providing certainty on national rent policy, which clearly changed.

7.6 Assumptions have been made within the model for changes in stock numbers, primarily from Right to Buy sales and from the additional stock that will be delivered as part of our new build and acquisition plans. These assumptions are consistent with those made in the budget and MTFF. The Council has entered into agreement with DCLG to retain additional RTB receipts to deliver new affordable housing, and the proposals already approved by Cabinet should minimise the amount that has to be repaid to Government.

7.7 Assumptions have been made regarding rent lost from void properties and bad debts. An allowance has been made for ongoing operational voids, as well as an ongoing increase to the level of bad debts provision we may need to hold following the introduction of the Governments welfare reforms.

7.8 It has been assumed that income from garages will increase in line with CPI. There is the potential for this to increase, with the improvement to the financial model coming through a combination of reduced void levels as well as an increase in annual charges.

7.9 All other income budgets are assumed to increase in line with inflation.

Expenditure Assumptions

7.10 Similarly to income, inflation can have a significant impact upon expenditure levels within the 30 year financial model. It has been assumed that the Retail Price Index (RPI) will be 1% higher than the Consumer Price Index (CPI), although the assumption that rents will increase by CPI + 1% means inflation on expenditure will be at the same rate as assumed for income.

7.11 Management costs have been assumed to remain at the current base level throughout the life of the 30 year model, subject to inflationary increases. The exception to this is where it is known they will alter, for example tri-annual reviews of the pension scheme by Essex County Council, or where one-off sums have been included within the base budget.

7.12 Maintenance costs have been extracted from the Councils 30 year Asset Management Strategy. Assumptions have been made around future increases in line with general inflation, but these costs are also subject to changes to the BCIS (Building Cost Inflation) and market conditions that impact as contracts are re-tendered.

Funding & Financing Assumptions

7.13 The Council's Asset Management Strategy includes the expenditure requirements of our housing stock over the next 30 years. This has been reflected in the 30 year financial model. The day to day repairs and maintenance costs are funded from the revenue account, whilst the capital expenditure requirements are funded from a variety of sources which is considered within the Housing Investment Programme (HIP) report elsewhere on the agenda

7.14 The priority of how resources are used to fund the HIP is contained within that report for 2020/21, which in summary is aimed at using specific grants and capital receipts first, then reserves, with the intention of preserving revenue resources as far as possible as they offer the greatest funding flexibility. Should there be no or insufficient revenue resources available, then additional borrowing would be the final approach. This is because borrowing carries a cost of doing so; therefore it is treated as the last option to gain the maximum use of revenue resources available.

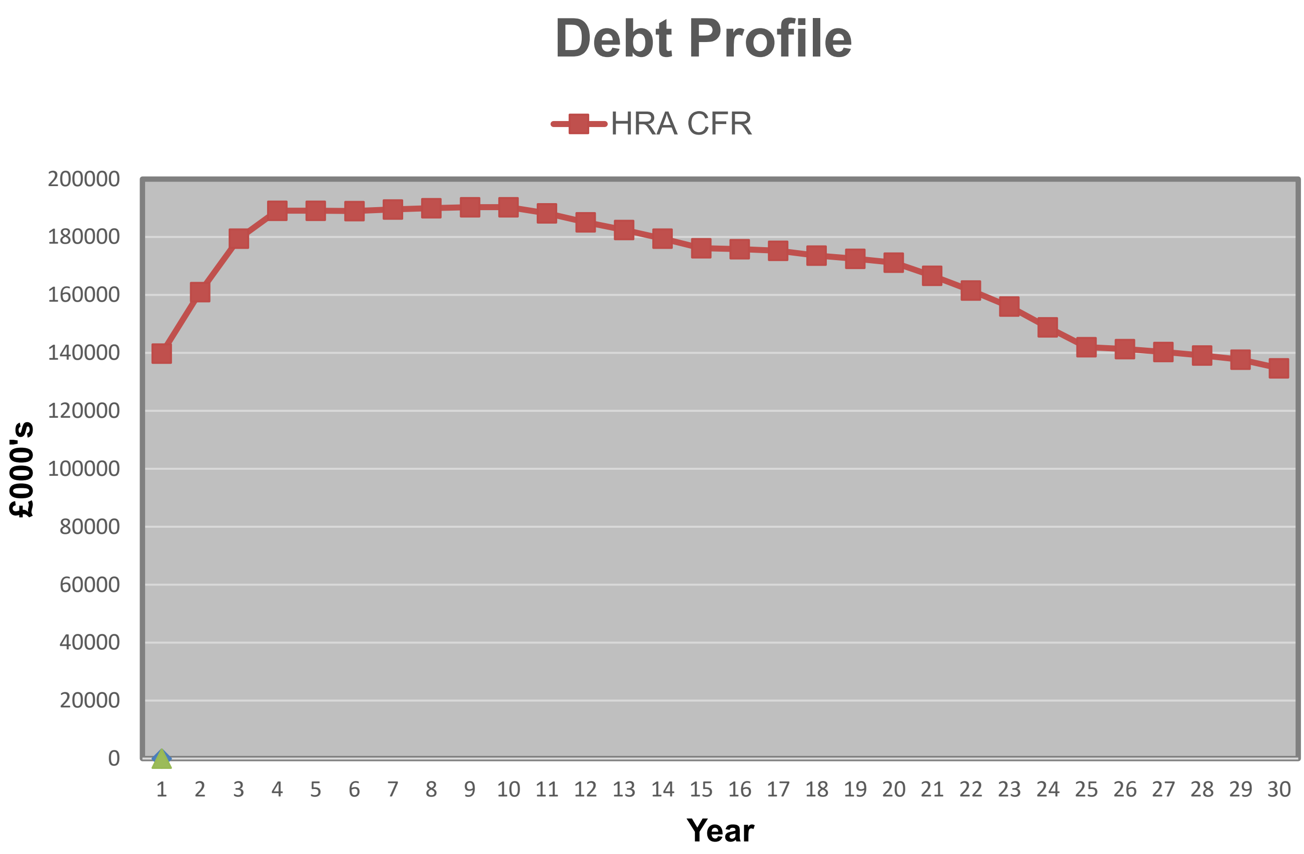
7.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

7.16 We are able to plan with certainty for the borrowing costs relating to the HRA Reform debt settlement, given that we entered into a number of long-term fixed rate loans. We are currently assuming a rate of 3.5% on any future borrowing undertaken to support the Housing Capital Programme, which will be reviewed annually as part of the budget cycle. However, it should be noted that the impact of interest rates can be significant, given any 1% change in interest rates would result in an annual cost of circa £150k (based on current levels of borrowing).

Debt

7.17 The measure of an authority's debt under self-financing is the HRA Capital Financing Requirement (HRA CFR). Our opening HRA debt on 1st April 2019 is expected to be £130.933million. As the HRA debt cap has been abolished by Government, the only constraint on borrowing now is that it is affordable under the prudential borrowing code.

7.18 The following graph shows our current debt profile that is being generated by the 30 year financial model. This works on the principle that once all of the costs of managing & maintaining our housing stock have been met, and the interest costs of our HRA borrowing have been paid, any residual income can be used to repay debt. It is important to state that this is an indication of the ability to repay debt, as what actually dictates whether debt is reduced is where the Council actually repay loans as they mature.



7.19 The above debt curve is consistent with a business plan for the HRA where a significant level of new build/stock acquisitions etc are being undertaken. In the early years, debt increases and then levels out around mid-way through the plan, then starts to reduce in the second half of the plan as rents have increased sufficiently to enable repayment of debt.

7.20 Given the abolition of the HRA debt cap, the Council is planning to undertake additional prudential borrowing to deliver the plans agreed by Cabinet. The following table shows the predicted level of debt over the first 10 years of the current financial model, taking into account the additional borrowing and any provision for the repayment of debt;

Year	Forecast HRA Debt £000's
2020/21	139,810
2021/22	161,069
2022/23	179,534
2023/24	189,058
2024/25	189,058
2025/26	188,996
2026/27	189,562
2027/28	189,994
2028/29	190,257
2029/30	190,319

7.21 The projection in the above table is derived from a number of assumptions in the financial model, many of which are out of our direct control, for example inflation, Right To Buy numbers etc. Therefore the figures in the table above should be viewed as indicative.

Outlook Summary

7.22 To remind Members, the main test adopted when determining the viability of an HRA business plan is whether the debt is able to be repaid by year 30. This mirrors the process that private funders adopt when considering a stock transfer proposal, as they want to be comfortable that their borrowing is capable of eventually being repaid. However, HRA Reform has put Councils firmly in control of their business plans and it is acknowledged that Councils may wish to retain debt, and in return use those resources which would otherwise have been used to repay debt to provide even greater investment locally, whether it be in relation to the existing housing stock, the provision of new affordable housing and/or improved services to tenants. Therefore, whilst the year by which all debt would be repaid is useful as a measure, it should be considered alongside the Councils overall position on repayment of HRA debt versus the desire to provide maximum investment locally. To this extent, the debt tables in this report reflect Cabinets decisions to deliver the proposals set out in the Housing Investment Programme and plans to increase the supply of Council housing.

7.23 The focus has now moved from managing within the debt cap, to managing our overall level of debt and ensure it is affordable in the long-term. The plans to increase our housing stock should be viewed as growth, and will last beyond the current 30 year modelling. As rents increase beyond year 30, then the ability to repay debt or invest further will increase.

Sensitivity Analysis

7.24 A key part of business planning is understanding the factors that can influence the outputs, and their potential impact. Therefore, a number of sensitivities can be modelled, to see how they affect the base position. The following table sets out some examples of the sensitivity analysis undertaken and their resultant impact upon the 30 year HRA model, compared to the base position shown at Appendix E;

		Variation to Base Position			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Base Position	Reduction in Inflation of 1% over 30 Years	Increase in Inflation of 1% over 30 Years	Decrease in Inflation of 1%, Increase in RTB's by 10,Decrease in Mgt Costs by £200k in every Year	Increase in Inflation of 1%, Increase in RTB's by 10, Increase in Mgt Costs by £200k in every Year
Peak Debt Year	Year 10	Year 10	Year 5	Year 10	Year 10
Debt at Year 30	£134.8million	£186.4million	£73.7million	£189.7million	£112.7million
Capital Investment affordable over 30 Years	£564.5million	£488.6million	£657.0million	£487.5million	£655.4million

Surplus HRA Balance at Year 30	£2.6million	£2.6million	£2.6million	£2.6million	£2.6million

7.25 The sensitivity analysis in Scenarios 1 & 2 above demonstrates the impact that inflation can have on the long-term HRA model. If inflation increases, rental income (following the Governments rent policy) increases at a higher rate than expenditure. Also, a large proportion of our costs are not affected by inflation, such as the fixed rate interest costs on our borrowing. Consequently, rising inflation results in a net gain to the HRA. Conversely though, lower inflation results in a net loss to the HRA, as we receive less rental income than we save in lower costs.

7.26 The sensitivity analysis also demonstrates how a combination of variables can influence the modelling, such as changes in inflation rates, numbers of Right To Buy sales and variations in costs for example. Depending on the scale of these changes, they could either bring a significant benefit to/put pressure on the viability of the current plan, or could actually be broadly neutral. Finally, the analysis above assumes any change would exist for each of the 30 years in the HRA, which is highly unlikely given the long time-scale involved, and also assumes no corrective action would be taken if there were a negative impact, which clearly would not be the case. However, it aims to give an understanding of how changes could impact upon the current base 30 year HRA model.

8. Strategic Plan References

8.1 The revenue estimates presented here link to the following areas of the Councils strategic plan:

Growth
- Help make sure Colchester is a welcoming place for all residents and visitors.
- Ensure residents benefit from Colchester economic growth with skills, jobs and improving infrastructure.

Opportunity
- Promoting and improving Colchester and its environment
- Ensure a good supply of land available for new homes through our local plan.
- Promote initiatives to help residents live healthier lives.

Wellbeing
- Making Colchester an even better place to live and supporting those who need most help
- Encourage belonging, involvement and responsibility in all the boroughs communities.
- Create new social housing by building Council homes and supporting Registered Providers.
- Target support to the most disadvantaged residents and communities.

9. Consultation and Publicity

9.1 With the potential consideration of service improvements that would lead to new service charges for tenants, it is anticipated that an appropriate amount of consultation will be undertaken during the course of the financial year.

9.2 The Council conducted the bi-annual STAR survey through ARP Research in April 2018, and will be doing so again in 2020, with the specific aim of obtaining customer feedback through a survey of general needs tenants, all sheltered tenants and leaseholders. In 2018, there was an increased response rate from tenants and leaseholders on previous surveys. Questions were centred on Colchester Borough Homes performance, tenant satisfaction with their homes, neighbourhood and services. The survey also attempted to identify tenants' priorities on where we focus the provision of non-statutory services. It is planned to repeat the STAR survey during 2020 and the report of the results will be made available to Cabinet and Members, to inform decision-making.

9.3 Consultation was previously undertaken as part of the process to review spending plans given the impact of the Governments previous rent reduction policy. A task and finish group was held with a number of tenants and leaseholders on the Asset Management investment plans of the Housing Futures Programme. One of the outcomes of this was that the views of tenants and leaseholders were generally in line with the proposed investment programme. Since that time, the Governments rent reduction policy has ended, and as a consequence, the Council will be reviewing its HRA Asset Management Strategy in 2020, and carrying out consultation as part of this work.

10. Financial Implications

10.1 Are set out in this report.

11. Equality, Diversity and Human Rights Implications

11.1 This report has no specific human rights implications. Consideration has been given to equality and diversity issues in respect of any budget changes proposed as part of the budget process. This has been done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

12. Community Safety Implications

12.1 Through the delivery of improvements to our housing assets and the built environment, the Council seeks to achieve improved outcomes for residents across the borough. This contributes to a reduction in the occurrence of anti-social behaviour, and the incidences of crime through investment in external elements of properties, e.g. UPVC windows and doors, and door entry systems.

13. Health and Safety Implications

13.1 This report has no significant Health and Safety implications

14. Risk Management Implications

14.1 These have been taken into account in the body of the report.

15. Environmental and Sustainability Implications

15.1 There are no direct implications included in this report, however the Housing Revenue Account will be used to deliver environmental and sustainable outcomes where possible, to fulfil the Councils ambitions for carbon neutrality.

Appendices

- Appendix A - Housing Revenue Account Estimates 2020/21
- Appendix B - HRA Balances Statement
- Appendix C - Medium Term Financial Forecast
- Appendix D - HRA Balances Risk Management Assessment
- Appendix E - 30 Year Financial Model

Background Papers

- None

Appendix A

	COLCHESTER BOROUGH COUNCIL		
	Revenue Estimates 2020/21		
	Housing Revenue Account		
	Summary		
2018/19		**2019/20**	**2020/21**
Actuals	**Expenditure & Income Analysis**	**Revised**	**Original**
		Budget	**Budget**
£000's		**£000's**	**£000's**
	INCOME		
(26,088)	Dwelling Rents (Gross)	(26,176)	(26,241)
(1,022)	Non-Dwelling Rents (Gross)	(1,124)	(1,135)
(2,743)	Charges for Services and Facilities	(2,611)	(2,648)
(81)	Contributions towards Expenditure	(55)	(57)
(29,934)	**Total Income**	**(29,966)**	**(30,081)**
	EXPENDITURE		
4,812	Repairs and Maintenance	5,216	5,334
3,472	CB Homes Ltd Management Fee	3,509	3,653
5,615	Management Costs	6,124	7,263
170	Rents, Rates and Other Charges	192	204
145	Increased provision for Bad or Doubtful Debts	250	250
5,637	Interest Payable	5,884	5,241
10,205	Depreciation and Impairments of Fixed Assets	6,500	6,000
53	Amortisation of Deferred Charges	52	32
70	Debt Management Costs	64	51
30,179	**Gross Expenditure**	**27,791**	**28,028**
245	**Net Cost of Services**	**(2,175)**	**(2,053)**
(3,634)	Net HRA Income from the Asset Management Account	(52)	(32)
(2,091)	Disposal of Fixed Assets	-	-
(113)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(31)	(131)
(5,593)	**Net Operating Expenditure**	**(2,258)**	**(2,216)**
4,934	Revenue Contribution to Capital Expenditure	2,449	2,716
(659)	**Deficit/(Surplus) for the Year**	**191**	**500**
(3,905)	Deficit/(Surplus) at the Beginning of the Year	(4,564)	(4,373)
(659)	Deficit/(Surplus) for the Year	191	-
(4,564)	Deficit/(Surplus) at the End of the Year	(4,373)	(3,873)

Appendix B

Housing Revenue Account - Estimated Balances

	£'000
Balance as at 1 April 2019	**(4,564)**
Committed - Capital Spending in 2019/20 and onwards	2,273
Less budgeted deficit/use of balances in 2019/20	191
Plus Forecast underspend in 2019/20	-
Unallocated balance at 31st March 2020	**(2,100)**
Less Proposed Use of balances in 20/21 Budget	500
Estimated uncommitted balance at 31st March 2021	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2021	**-**

Note:

This forecast is on the basis that there are no further calls on balances during the remainder of the year.

Housing Revenue Account – Medium Term Financial Forecast

Area	*Revised Budget 19/20*	*Budget 20/21*	*Budget 21/22*	*Budget 22/23*	*Budget 23/24*	*Budget 24/25*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Income						
Housing Rents	(26,176)	(26,247)	(27,228)	(28,414)	(29,629)	(30,713)
Other Income	(3,790)	(3,835)	(3,782)	(3,935)	(4,063)	(4,204)
	(29,966)	**(30,082)**	**(31,010)**	**(32,349)**	**(33,692)**	**(34,917)**
Expenditure						
Repairs & Maintenance	5,216	5,334	5,427	5,528	5,640	5,808
Running Costs	9,070	11,370	10,132	10,337	10,765	11,047
Interest Payable	5,884	5,241	5,975	6,849	7,412	7,698
Depreciation	6,500	6,000	6,193	6,411	6,598	6,814
Other Capital Financing	33	(79)	(31)	8	10	11
RCCO	3,454	2,716	3,314	3,216	3,267	3,539
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	30,157	**30,582**	**31,010**	**32,349**	**33,692**	**34,917**
Budgeted (Surplus)/Deficit	**0**	**500**	**0**	**0**	**0**	**0**
Forecast 2019/20 underspend	0	0	0	0	0	0
Revised (Surplus)/Deficit	**191**	**0**	**0**	**0**	**0**	**0**

Opening Balance	**(4,564)**	**(2,100)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**
Committed Balance	**2,273**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**191**	**500**	**-**	**-**	**-**	**-**
Uncommitted Closing Balance	**(2,100)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**

* It should be noted that it is currently forecast the HRA will be overspent by £269k in 2019/20, which will result in a reduced RCCO in the year. Clearly, if this level of overspend is not achieved, then there will be a resultant impact upon the level of RCCO we are able to make, and thus a knock-on impact on the amount of any new borrowing required.

Appendix D

Review of Housing Revenue Account Balances 2020/21

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £54m)	540		
Interest Rate (1.5% on £62m)		930	
Inflation (Decrease of 1%)		250	
Emergencies		100	
Right To Buy Sales		200	
Litigation			50
Welfare Reform	300		
	840	1,480	50

	Minimum Provision £'000
High Risk – 100%	840
Medium – 50%	740
Low – 10%	5
Sub Total	**1,585**
Other - say	15
Recommended Prudent Level	**1,600**

Housing Revenue Account – 30 Year Financial Model

Appendix E

	Year 1 2020/21 £000's	Year 2 2021/22 £000's	Year 3 2022/23 £000's	Year 4 2023/24 £000's	Year 5 2024/25 £000's	Year 1-5 Total £000's	Year 6-10 Total £000's	Year 11-15 Total £000's	Year 16-20 Total £000's	Year 21-25 Total £000's	Year 26-30 Total £000's
Revenue Account											
Income	(30,082)	(31,010)	(32,349)	(33,692)	(34,917)		(189,868)	(218,393)	(251,281)	(289,111)	(333,395)
Expenditure	30,582	31,010	32,349	33,692	34,917		189,700	218,209	251,079	288,885	333,149
(Surplus)/Deficit	500	0	0	0	0		(168)	(184)	(202)	(226)	(246)
Opening HRA Balance (Surplus)	(2,100)	(1,600)	(1,600)	(1,600)	(1,600)		(1,600)	(1,768)	(1,952)	(2,154)	(2,380)
Closing HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)		(1,768)	(1,952)	(2,154)	(2,380)	(2,626)
Capital Account											
Investment:											
Stock Investment Programme	9,473	8,088	9,331	12,227	10,167	49,286	60,951	61,441	90,125	89,370	138,705
Sheltered Accommodation Review	740	4,593	3,925	0	0	9,258	0	0	0	0	0
Property Acquisitions	6,500	6,600	6,151	6,214	0	25,465	0	0	0	0	0
New Build	9,950	16,068	10,982	2,875	0	39,875	0	0	0	0	0
Total	**26,663**	**35,349**	**30,389**	**21,316**	**10,167**	**123,884**	**60,951**	**61,441**	**90,125**	**89,370**	**138,705**
Funded By (Resources):											
Depreciation	(6,000)	(6,193)	(6,411)	(6,598)	(6,628)	(31,830)	(37,180)	(42,521)	(48,885)	(56,197)	(64,768)
Revenue Contribution	(2,716)	(3,314)	(3,216)	(3,267)	(3,539)	(16,052)	(22,448)	(18,921)	(41,240)	(33,173)	(73,937)
Capital Receipts	(250)	0	0	0	0	(250)	0	0	0	0	0
HRA Reserves	(2,820)	(4,583)	(2,297)	(1,927)	0	(11,627)	0	0	0	0	0
New Borrowing	(14,877)	(21,259)	(18,465)	(9,524)	0	(64,125)	(1,323)	0	0	0	0
Total	**(26,663)**	**(35,349)**	**(30,389)**	**(21,316)**	**(10,167)**	**(123,884)**	**(60,951)**	**(61,441)**	**(90,125)**	**(89,370)**	**(138,705)**
Debt:											
HRA Debt at Year End	139,810	161,069	179,534	189,058	189,058		190,319	176,116	171,171	142,057	134,762