COLCHESTER

Cabinet

Item

28th January 2015

Report of	**Head of Commercial Services**	Author	**Darren Brown** ☎ **282891**
Title	**Housing Revenue Account Estimates 2015/16**		
Wards affected	**All**		

This report presents the Housing Revenue Account (HRA) estimates for 2015/16, the Medium Term Financial Forecast (MTFF) for 2015/16 to 2019/20, and the 30 Year HRA financial model

1. Decision Required

1.1 To approve the 2015/16 HRA revenue estimates as set out in Appendix A.

1.2 To approve dwelling rents as calculated in accordance with the rent restructuring formula (set out in paragraph 4.7).

1.3 To approve the HRA revenue funded element of £6,754,400 included within the total management fee for Colchester Borough Homes (CBH) (set out in paragraph 4.13).

1.4 To note a revenue contribution of £4,689,000 to the Housing Investment Programme is included in the budget (paragraph 4.27).

1.5 To note the HRA balances position in Appendix B.

1.6 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.

2. Reasons for Decision

2.1. Financial Procedures require the Head of Commercial Services to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

3. Supporting Information

Key Issues for 2015/16

3.1 There are a number of key issues relating to the HRA budget for 2015/16, with further details being included within the main body of the report. However, in summary they are as follows. This is the second 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 also the second HRA budget to be set in the context of the new 30 year HRA Business Plan, which was approved by Cabinet at it's meeting on the 27th November 2013. The budget therefore reflects the strategic priorities identified within the HRA business plan. Finally, this is the fourth year of HRA Self-Financing. This has radically altered the funding of Council Housing, and the increase in investment in the housing stock and other projects is reflected in this report and the Housing Investment Programme report included elsewhere on the agenda.

3.2 As part of the process for setting the 2015/16 HRA budget, it is necessary to revisit the 2014/15 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.

2014/15 Revised Housing Revenue Account

3.3 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2014/15. There have been some amendments to the original budget for 2014/15 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2014/15:-

Reconciliation between Original and Revised 2014/15 HRA Budget

	Budget 14/15	***Commentary***
	£'000	
Original Budget Deficit	**2,920**	Agreed 29th January 2014
2013/14 Budgets c/fwd	310	Agreed by Assistant Chief Executive/Head of Commercial Services
Revised Budget Deficit	**3,230**	

2014/15 Forecast Outturn Position

3.4 When considering the financial position of the HRA, in addition to the adjustments to the 2014/15 original budget shown in the above table, it is important to note the 2014/15 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 14/15
	£'000
Rental & Tenants Service Charge Income	(33)
Leaseholder Service Charge Income	(307)
Energy Costs	(70)
Supplies & Services	(90)
One-off/Technical Items	
Revenue Contribution to Capital (RCCO)	500
Forecast 2014/15 Outturn Variance	**-**

- It is forecast that we will receive more rental and tenants service charge income of £33k. This reflects the impact of less rental & service charge income being lost from dwellings and garages than assumed within the budget, through a combination of voids and the number of Right To Buy sales this year. We are also predicting an additional £307k of unbudgeted Leaseholder service charge income this year, relating to the External Decorating programme.

- There is an anticipated £70k saving in energy costs this year, reflecting that actual costs have not increased in line with the expectation built into the budget for the current year.

- There is a general underspend across Supplies & Services budgets this year. As a result, it is predicted there will be an underspend at year-end of circa £90k. This has also been considered as part of the budget setting for 2015/16.

- As a direct result of the additional income and reduced expenditure forecast this financial year, there will be additional revenue resources available for an increased Revenue Contribution to Capital of £500k to fund the Housing Capital Programme in 2014/15.

3.5 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 and our HRA headroom can be maximised to deliver our strategic priorities should be taken. To this extent it is planned to use the forecast net underspend in 2014/15 to fund more of our Housing Capital Programme through an increased RCCO and minimise new borrowing, enabling us to meet our significant asset management priorities.

HRA Reform

3.6 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2015/16 budget therefore reflects the fourth year of the new financial regime for the HRA, with commentary included on the medium and long-term outlook in this report.

3.7 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 6, 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.

4. 2015/16 Housing Revenue Account Budget

4.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2015/16. This shows a predicted HRA deficit of £246k which will be funded by a planned use of uncommitted HRA balances.

4.2 It should be noted that the MTFF included within the 2014/15 HRA budget cycle and considered by Cabinet on 29th January 2014 estimated a break-even budget for 2015/16. However, given that the HRA balance is higher than planned due to the favourable 2013/14 outturn position, we are able to make a larger RCCO to the capital programme than originally planned. Although this shows as a higher deficit than envisaged this time last year, it simply reflects that there is more HRA balance available to fund the 2015/16 Housing Capital Programme, and therefore preserve the borrowing headroom for future years and other projects.

Balances

4.3 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. Provision is also made within the level of HRA balances for any potential additional revenue implications of our Sheltered Accommodation and other capital projects. Whilst there is now some certainty around interest rates given we have secured long-term fixed rates on our HRA Reform settlement debt, the risk surrounding welfare reform continues to be recognised in our assessment of HRA balances.

4.4 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. As we move through the early years of HRA Reform, we will have more certainty and resources will become greater, meaning we may revert to a lower minimum level of balances in the future.

4.5 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2015 is £1,846k. The recommended prudent level of balance is £1,600k. Therefore, we are able to use part of the uncommitted balance to meet the budget deficit for 2015/16 as mentioned in paragraph 4.1.

4.6 The budget at Appendix A shows the use of part of the uncommitted balances in 2015/16 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, thus incurring additional borrowing costs and using available borrowing headroom. This fits with the prioritising of resources indicated in this report and in the Housing Investment Programme elsewhere on the agenda. From 2015/16 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.

Income

Housing Rents

4.7 For 2015/16, the Government has changed the way annual rent increases are calculated. As a result of the formula changing and Colchester following it, 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 main changes are: that the formula for increasing rents now is Consumer Price Index (CPI) + 1%, compared to Retail Price Index (RPI) + 0.5% under the previous methodology. Also, the additional £2 per week that was used to enable individual rents to converge with their target rent has been removed. However, rents will be able to be moved to target rent when a property becomes empty. 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%. There are still caps in place to protect tenants from very large increases. The average rent proposed for 2015/16 is £87.82 per week compared to a current average of £85.93, an increase of £1.89 (2.20%) per week. (It should be noted that the September 2014 CPI figure was 1.2%). Given the potential for the rate of inflation to vary in the short to medium term, it is difficult to anticipate future rent increases. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates.

4.8 Sales of council houses under the Right to Buy (RTB) scheme could reach 40 in 2014/15 (28 sold in 2013/14 and 21 sold in 2012/13), which is higher than the number expected in the 2014/15 HRA budget. The level of sales is increasing in the current financial year, presumably due to the Governments changes to the RTB scheme (which primarily focused around increasing RTB discounts to tenants to stimulate the housing market). The 2015/16 budget has been set assuming the sale of 25 properties, being broadly in line with historical levels. The MTFF and longer term modelling assume a reduction in the number of sales after 2015/16. However, these assumptions will be reviewed annually as part of our future budget setting.

4.9 The budget for 2014/15 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 2014/15 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.

Other Income

4.10 The rents for garages are included in the fees and charges report agreed by the Portfolio Holder for Housing and Public Protection. An assumption has been included in the budget for a number of garages that are currently empty, to be brought into a condition where they can be let, and therefore generate additional income.

4.11 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 for Housing. The budget for 2015/16 assumes that the demand for these services will remain the same as the current financial year, unless mentioned otherwise.

4.12 The de-pooling of services charges to individual tenants was implemented in 2008/09. There have been some new service charges introduced for 2015/16, primarily relating to servicing of equipment in communal areas, such as Fire Alarms, Emergency Lighting Portable Appliance Testing and Legionella testing. There has also been the annual update of existing charges to reflect the actual cost of the services provided.

<u>Expenditure</u>

Colchester Borough Homes Management Fee

4.13 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 also now 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 now funded from several sources within the Council's accounts, namely the Housing Revenue Account, the Housing Investment Programme, aswell 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 2015/16 CBH Management Fee

	Budget 15/16	***Funding Source***
	£	
CBH Management costs	3,441,400	CBH Ltd Management Fee at Appendix A
R&M Management Fee	529,000	Included in Repairs & Maintenance at Appendix A
R&M Works	2,784,000	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**6,754,400**	
Capital Fee	1,370,000	Included within the 2015/16 Housing Investment Programme
Sub-Total: HIP	**1,370,000**	
Anti-Social Behaviour Team	43,200	Included within the 2015/16 General Fund Budget
Professional Support Unit	113,700	Included within the 2015/16 General Fund Budget
Housing Options Team	586,500	Included within the 2015/16 General Fund Budget
Facilities Management/ Engineering Team	452,600	Included within the 2015/16 General Fund Budget
Sub-Total: General Fund	**1,196,000**	
Total Management Fee	**9,320,400**	

4.14 The base management fee for 2015/16 includes an allowance for inflation along with an increased provision following the completion of the review of the cost of services CBH buys-in from the Council.

4.15 Members will be aware that at its meeting on the 27th November 2013, Cabinet approved the Council's 30 year HRA Business Plan. The 2015/16 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

4.16 The 2015/16 HRA budget includes £6,222,400 for management costs, a decrease from 2014/15 (£6,436,000). 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 2014/15 budget is given in the following paragraphs;

4.17 The budget for Employee costs has increased by £2,600 for 2015/16, which reflects the net effect of a provision for a pay award, and a small reduction in the training budget.

4.18 The budget for Premises costs has decreased by £35,400 for 2015/16. This primarily relates to the Grounds Maintenance budget where a provision has been made for an inflationary increase in accordance with the contract, and a reduction in utilities budgets primarily reflecting lower anticipated prices.

4.19 The budget for Supplies and Service costs has decreased by £194,900. The main reasons for this decrease are as follows: One-off funding of £30,000 included in the 2014/15 budget to upgrade existing telecare & telehealth systems has dropped-out, aswell as a proportion of the £150,000 to meet the set-up costs of the second phase of the Photovoltaic Panels on Council dwellings scheme. The remainder of the decrease relates to a general review of budgets, and reflects the current year forecast outturn shown in paragraph 3.4.

4.20 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 2015/16 has increased by £6,100 from 2014/15.

Repairs and Maintenance

4.21 The 2015/16 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £5,028,100 has been included in the budget for repairs and maintenance (compared to £5,037,300 in 2014/15), of which £3,313,000 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,436,700 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

4.22 The budget includes the statutory charges to the HRA for the interest costs of the Council's borrowing in respect of the housing stock. This represents a significant proportion of the Councils HRA expenditure each year. The 2015/16 budget for interest costs has increased compared to 2014/15, which reflects that we will be undertaking new borrowing to fund the overall Housing Investment Programme next year.

4.23 No provision has been made at this point in time for the repayment of any HRA debt, as there is no statutory duty to provide for it. However, the Council now has circa £125million 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".

4.24 The 30 year financial modelling undertaken as part of this years budget setting cycle currently indicates that surplus resources (over and above what is required to meet existing spending plans) would be generated from 2019/20 onwards (Year 5). Under the principle of HRA Reform these resources will increase year on year. However, it should be noted that the extent of this is based upon assumptions around inflation etc, which could increase/decrease the amount of resources available by the time this point is reached.

4.25 Given the need to undertake additional HRA borrowing to support the Housing Investment Programme over the next 4 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 2015/16 budget or MTFF at this point in time.

Revenue Contributions to Capital Outlay (RCCO)

4.26 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 new 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.

4.27 The revenue contribution included in the estimates is £4,689,000. The majority of this budget is to support the capital work programmes to the housing stock in 2015/16, 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.

Risk areas and budget review process

4.28 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.
Governments Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. Aswell 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.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Capital Resources have been provisionally allocated for 2015/16 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 HRA borrowing subject to the HRA debt cap. 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 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,

Area	Comment
	there is a risk that prices could rise, the cost of which would have to be funded from existing resources or HRA balances.
2014/15 Outturn	An underspend of £500k is currently predicted for this year, which is planned to be used to fund a greater proportion of our Housing Capital Programme instead of new borrowing. Any variance on the forecast will result in a higher or lower RCCO, which will have a knock-on impact on the use of our borrowing headroom.

4.29 As shown in paragraph 4.28 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 2015	Updated outturn forecast.
July 2015	Provisional pre-audit outturn / current year issues etc.
September 2015/ October 2015	Mid year review.
December 2015 / January 2016	Outturn review / Budget 2016/17.

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

5.1 As part of the budget process for 2015/16 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2015/16 to 2019/20. Although we are operating under the new HRA Finance 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.

5.2 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 in difficult economic times. This approach fits with the principle referred to in paragraph 4.6 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.

- ***Rental income***

Rent forecasts have been updated for the changes the Government have made to the annual rent setting formula. A key component of this forecast is assumptions on future inflation levels but the CLG have not given any guidance on rates to assume when undertaking modelling of future rent increases. Rental income remains one of the areas of the MTFF in particular which is subject to change. 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 2014/15 going forwards, with the level of provision being reviewed annually as part of the budget setting process.

- ***Sheltered Housing Accommodation Review***

At its meeting on the 12th October 2011, Cabinet considered a number of recommendations relating to making improvements to the Councils sheltered housing stock. The MTFF makes provision for the revenue impact of these decisions, whilst the Housing Investment Programme report elsewhere on the agenda reflects an estimated planned capital reinvestment of £10.176million in sheltered accommodation over the next 4 years. The revenue budget makes provision for home loss & disturbance payments plus the potential interest costs that would be incurred if additional borrowing is undertaken to fund capital works at future schemes due for improvement.

5.3 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.

6. Supporting Information – 30 Year Financial Modelling

6.1 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 it's 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 2015/16 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.

6.2 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.

6.3 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 6.26.

Income Assumptions

6.4 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.

6.5 It has been assumed that the Government will retain the new rent formula, increasing tenants rents by CPI + 1.0%, for the duration of the 30 year model. There is no indication to suggest that this is going to alter, but it is the example the Government quoted within the HRA Reform debt settlement whereby if it were to change, then they would possibly re-open the original debt settlement.

6.6 Assumptions have been made within the model for loss of stock, not only through the various projects being undertaken, but more significantly from Right to Buy sales. These 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 we will be using these to contribute to the cost of delivering our 34 units of new build accommodation on our garage sites, and also to fund where possible the next phase of Council Housing new build.

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

6.8 It has been assumed that income from garages will continue to increase in line with future dwelling rent increases. There is the potential for this to increase, with the improvement to the financial model coming through a combination of reduced void levels aswell as an increase in annual charges.

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

Expenditure Assumptions

6.10 Similarly to income, inflation can have a significant impact upon expenditure levels within the 30 year financial model. It has been assumed that inflation on expenditure will be at the same rate as assumed for income.

6.11 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.

6.12 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

6.13 The Councils 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

6.14 The priority of how resources are used to fund the HIP is contained within that report for 2015/16, 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 utilising any available headroom 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.

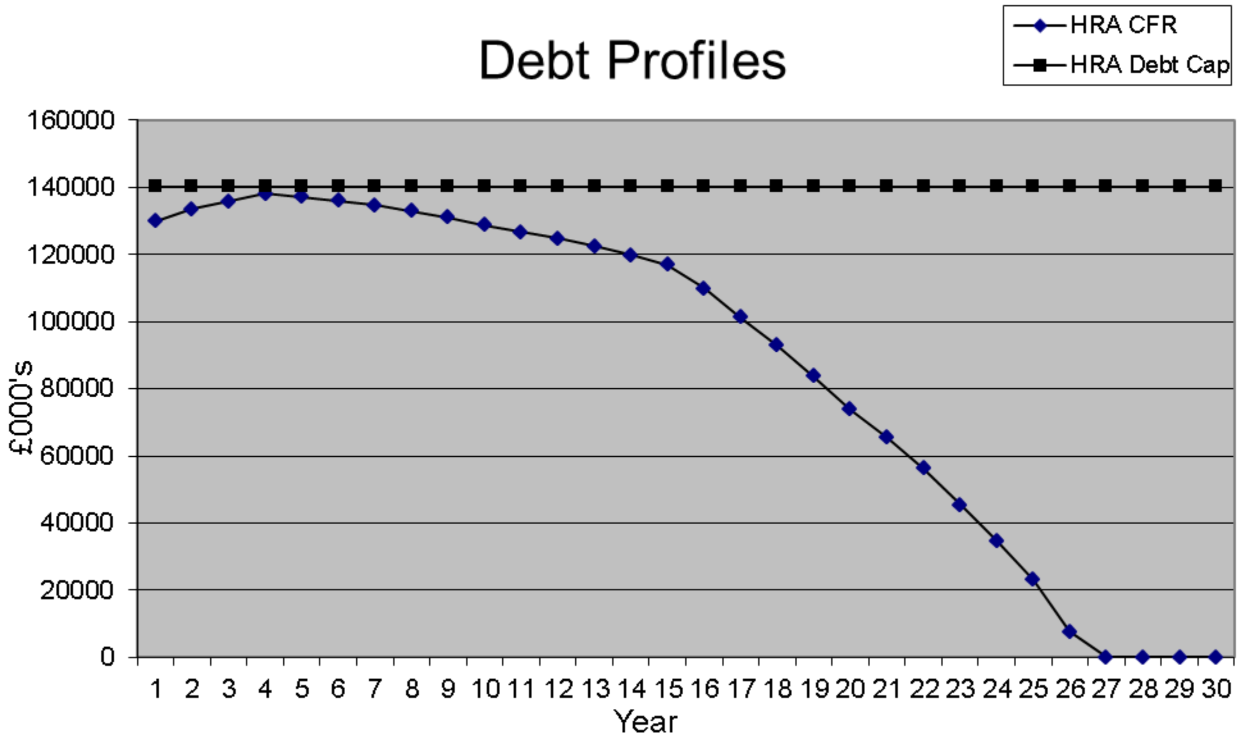
6.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

6.16 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 4.5% 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 £157k (based on the maximum amount of borrowing headroom currently unused).

Debt

6.17 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 2014 is expected to be £125.647million. We have a debt cap of £140.275million, which is the limit the Government have imposed to control public sector borrowing under HRA Reform.

6.18 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.



6.19 The above debt curve is consistent with a business plan for which HRA self-financing works well. There is currently borrowing headroom in every year of the plan. The graph shows debt rising initially (due entirely to the additional investment in new build and the sheltered accommodation review in Years 1 to 4), but then peaking in Year 4 and starting to reduce in Year 5 as we are able to start repaying debt (or setting resources aside for repayment).

6.20 The difference between the HRA Debt Cap and the HRA CFR is known as the “borrowing headroom”, and represents the amount of additional resources the Council can generate through further borrowing. This is set to increase as time progresses, as the surplus resources generated within the model are used to repay debt (or set aside to repay debt if it is not able to be repaid at that point in time). The following table shows the predicted level of available headroom over the first 10 years of the current financial model, after taking into account the potential borrowing that may be undertaken to fund the Housing Investment Programme and any provision for the repayment of debt;

Year	Available Borrowing “Headroom” £000’s
2015/16	10,263
2016/17	6,734
2017/18	4,511
2018/19	2,113
2019/20	3,202
2020/21	4,264
2021/22	5,601
2022/23	7,233
2023/24	9,177
2024/25	11,424

6.21 The above table shows that whilst there is available headroom in each of the next 10 years, the estimated amount available when we reach peak-debt (Year 4) is **projected** to be circa £2.1million. This 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. As part of this budget setting cycle, the amount of available headroom has reduced significantly, simply from lower rates of CPI than assumed a year ago, aswell as a sharp increase in building cost inflation, which is contractually payable on a number of our revenue and capital maintenance contracts. An increase in Right To Buy numbers resulting from the Government's change in maximum discount has also seen our rental income reduce. These are all issues that could continue in the short to medium term, therefore the headroom figures in the table above should be viewed entirely as indicative.

6.22 If the headroom figures were to reduce to the point that they reach zero, or in other words we reach our debt cap and no longer have any headroom available, then to accommodate any further cost pressures/reductions in income that could occur, we would need to reduce our expenditure plans on either our Housing Capital Programme or revenue budgets, or a combination of both. Consideration needs to be given to this possibility when setting this and future years budgets, and when considering any further plans for the use of borrowing headroom.

Outlook Summary

6.23 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, given HRA Reform has put Councils firmly in control of their business plans, 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.

6.24 The Councils current 30 year model shows that all HRA debt would be able to be repaid by year 27. This is taking into account the additional borrowing that relates to the building of new Council Housing, and the improvements to our sheltered housing accommodation. Were these projects not to go ahead, then all the debt would be able to be repaid approximately 2 years earlier.

6.25 Therefore, using the current set of assumptions and information available, alongside fully meeting the investment requirements of the Councils Asset Management Strategy, the 30 year financial model set out at Appendix E continues to show a viable long-term HRA for Colchester.

Sensitivity Analysis

6.26 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 effect 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 4	Year 4	Year 4	Year 4	Year 4
Year Debt Repaid	Year 27	Year 30	Year 24	Year 32	Year 27
Capital Investment over 30 Years	£391.9million	£339.8million	£454.6million	£339.2million	£453.7million
Surplus HRA Balance at Year 30	£66.6million	£4.25million	£137.3million	£2.1million	£73.1million

6.27 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.

6.28 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.

7. Strategic Plan References

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

- Regenerating our borough through buildings, employment, leisure and infrastructure
- Promoting sustainability and reducing congestion
- Providing more affordable homes across the borough
- Supporting more vulnerable groups

8. Consultation and Publicity

8.1 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. Furthermore, extensive consultation has been undertaken with tenants regarding future works programmes, including those within the Housing Investment Programme, which have a resultant impact upon this budget report.

9. Financial Implications

9.1 Are set out in this report.

10. Equality, Diversity and Human Rights Implications

10.1 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 polices and procedures including production of Equality Impact Assessments where appropriate.

11. Community Safety Implications

11.1 This report has no significant community safety implications

12. Health and Safety Implications

12.1 This report has no significant Health and Safety implications

13. Risk Management Implications

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

Appendices

- Appendix A - Housing Revenue Account Estimates 2015/16
- 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 2015/16		
	Housing Revenue Account		
	Summary		
2013/14 Actuals	**Expenditure & Income Analysis**	**2014/15 Revised Budget**	**2015/16 Original Budget**
£000's		**£000's**	**£000's**
	INCOME		
(26,177)	Dwelling Rents (Gross)	(26,783)	(27,201)
(754)	Non-Dwelling Rents (Gross)	(722)	(820)
(2,376)	Charges for Services and Facilities	(2,272)	(2,383)
(178)	Contributions towards Expenditure	(208)	(108)
(29,485)	**Total Income**	**(29,985)**	**(30,512)**
	EXPENDITURE		
5,126	Repairs and Maintenance	5,177	5,028
3,252	CB Homes Ltd Management Fee	3,340	3,441
5,473	Management Costs	6,606	6,222
187	Rents, Rates and Other Charges	210	219
207	Increased provision for Bad or Doubtful Debts	250	250
5,567	Interest Payable	5,572	5,668
115	Depreciation and Impairments of Fixed Assets	5,108	5,199
101	Amortisation of Deferred Charges	150	100
80	Debt Management Costs	85	74
20,108	**Gross Expenditure**	**26,498**	**26,201**
(9,377)	**Net Cost of Services**	**(3,487)**	**(4,311)**
5,849	Net HRA Income from the Asset Management Account	(150)	(100)
38	Amortised Premiums and Discounts	-	-
(30)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(33)	(32)
(3,520)	**Net Operating Expenditure**	**(3,670)**	**(4,443)**
2,563	Revenue Contribution to Capital Expenditure	6,900	4,689
(957)	**Deficit/(Surplus) for the Year**	**3,230**	**246**
(4,507)	Deficit/(Surplus) at the Beginning of the Year	(5,464)	(2,234)
(957)	Deficit/(Surplus) for the Year	3,230	246
(5,464)	Deficit/(Surplus) at the End of the Year	(2,234)	(1,988)

Appendix B

Housing Revenue Account - Estimated Balances

	£'000
Balance as at 1 April 2014	**(5,464)**
Committed - Capital Spending in 2014/15 and onwards	388
Less budgeted deficit/use of balances in 2014/15	3,230
Plus Forecast underspend in 2014/15	-
Unallocated balance at 31st March 2014	**(1,846)**
Less Proposed Use of balances in 15/16 Budget	246
Estimated uncommitted balance at 31st March 2016	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2016	**-**

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 14/15***	***Budget 15/16***	***Budget 16/17***	***Budget 17/18***	***Budget 18/19***	***Budget 19/20***
	£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
Income						
Housing Rents	(26,783)	(27,201)	(27,770)	(28,392)	(29,017)	(30,266)
Other Income	(3,202)	(3,311)	(3,312)	(3,378)	(3,445)	(3,535)
	(29,985)	**(30,512)**	**(31,082)**	**(31,770)**	**(32,462)**	**(33,801)**
Expenditure						
Repairs & Maintenance	5,177	5,028	5,125	5,226	5,329	5,435
Running Costs	10,406	10,133	10,154	10,213	10,416	10,623
Interest Payable	5,572	5,667	5,842	6,015	6,118	6,147
Depreciation	5,108	5,199	5,406	5,514	5,624	5,737
Other Capital Financing	52	42	42	44	46	1,136
RCCO	6,900	4,689	4,515	4,757	4,929	4,722
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	33,215	**30,758**	**31,084**	**31,769**	**32,462**	**33,800**
Budgeted (Surplus)/Deficit	**3,230**	**246**	**2**	**(1)**	**-**	**(1)**
Forecast 2014/15 underspend	-	0	0	0	0	0
Revised (Surplus)/Deficit	*** 3,230**	**246**	**2**	**(1)**	**-**	**(1)**

Opening Balance	**(5,464)**	**(1,846)**	**(1,600)**	**(1,598)**	**(1,599)**	**(1,599)**
Committed Balance	**388**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**3,230**	**246**	**2**	**(1)**	**0**	**(1)**
Uncommitted Closing Balance	**(1,846)**	**(1,600)**	**(1,598)**	**(1,599)**	**(1,599)**	**(1,600)**

* It should be noted that it is currently forecast the HRA will be underspent by £500k in 2014/15, which will be used to increase the RCCO in the year. Clearly, if this level of underspend 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 use of our borrowing headroom.

Appendix D

Review of Housing Revenue Account Balances 2015/16

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £56m)	560		
Interest Rate (2% on £16m)		320	
Inflation (Decrease of 1%)		250	
Emergencies		50	
Right To Buy Sales		250	
New Spending		100	
Litigation			50
Welfare Reform	250		
Sheltered Accommodation Project	150		
Garage Sites Project		200	
	960	1,170	50

	Minimum Provision £'000
High Risk – 100%	960
Medium – 50%	585
Low – 10%	5
Sub Total	**1,550**
Other - say	50
Recommended Prudent Level	**1,600**

Housing Revenue Account – 30 Year Financial Model **Appendix E**

	Year 1 2015/16 £000's	Year 2 2016/17 £000's	Year 3 2017/18 £000's	Year 4 2018/19 £000's	Year 5 2019/20 £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	(30,512)	(31,082)	(31,770)	(32,462)	(33,801)		(177,915)	(199,995)	(224,102)	(251,113)	(281,376)
Expenditure	30,758	31,084	31,769	32,462	33,800		177,748	199,811	223,897	250,889	217,159
(Surplus)/Deficit	246	2	(1)	0	(1)		(167)	(184)	(205)	(224)	(64,217)
Opening HRA Balance (Surplus)	(1,846)	(1,600)	(1,598)	(1,599)	(1,599)		(1,600)	(1,767)	(1,951)	(2,156)	(2,380)
Closing HRA Balance (Surplus)	(1,600)	(1,598)	(1,599)	(1,599)	(1,600)		(1,767)	(1,951)	(2,156)	(2,380)	(66,597)
Capital Account											
Investment:											
Stock Investment Programme	10,922	9,783	9,808	10,216	10,459	51,188	58,143	69,432	57,677	75,181	66,962
Sheltered Accommodation Review	2,348	2,407	2,686	2,735	0	10,176	0	0	0	0	0
New Build	1,444	1,700	0	0	0	3,144	0	0	0	0	0
Total	**14,714**	**13,890**	**12,494**	**12,951**	**10,459**	**64,508**	**58,143**	**69,432**	**57,677**	**75,181**	**66,962**
Funded By (Resources):											
Depreciation	(5,199)	(5,406)	(5,514)	(5,624)	(5,737)	(27,480)	(32,176)	(37,428)	(43,425)	(50,264)	(58,057)
Revenue Contribution	(4,689)	(4,515)	(4,757)	(4,929)	(4,722)	(23,612)	(25,967)	(32,004)	(14,252)	(24,917)	(8,905)
Capital Receipts	0	0	0	0	0	0	0	0	0	0	0
Grant	(68)	0	0	0	0	(68)	0	0	0	0	0
HRA Reserves	(393)	(440)	0	0	0	(833)	0	0	0	0	0
New Borrowing	(4,365)	(3,529)	(2,223)	(2,398)	0	(12,515)	0	0	0	0	0
Total	**(14,714)**	**(13,890)**	**(12,494)**	**(12,951)**	**(10,459)**	**(64,508)**	**(58,143)**	**(69,432)**	**(57,677)**	**(75,181)**	**(66,962)**
Debt:											
HRA Debt at Year End	130,012	133,541	135,764	138,162	137,073		128,851	116,919	73,852	23,186	0
Debt Cap	140,275	140,275	140,275	140,275	140,275		140,275	140,275	140,275	140,275	140,275
Available Headroom	10,263	6,734	4,511	2,113	3,202		11,424	23,356	66,423	117,089	140,275