

Joint report of the Chief Executive and Interim Deputy Chief Executive

HOUSING REVENUE ACCOUNT – UPDATE TO BUSINESS PLAN MODEL1. Purpose of report

To seek a recommendation to Council for approval of an updated Housing Revenue Account (HRA) financial model to reflect the 2018/19 budget and changes that have taken place over the past year.

2. Background

In February 2012 the Council approved a HRA business plan for the period 2012 through to 2041. Included within the business plan was a detailed financial plan and tables modelling the capital programme and revenue position for the HRA through to 2041. The financial model has subsequently been updated and approved by Council during each financial year.

Details of changes to any of the assumptions used to produce the detailed model and the tables setting out projected income and expenditure over the lifetime of the plan are set out in appendix 1. The modelling has taken place using the services of Anthony Wilkinson (Associate Consultant) from Housing Finance Associates. Anthony previously worked for the Chartered Institute of Housing who devised the model in the first place.

Appendix 2 gives an update to the capital programme and financing whilst appendix 3 provides an updated table showing the HRA summary.

3. Financial implications

The detailed appendices show that the HRA is still projected to be viable for the next 30 years and there is sufficient flexibility to provide the necessary finance for the capital programme.

Recommendation

The Committee is asked to RECOMMEND to Council that the updated financial model for the Housing Revenue Account be approved.

Background papers

Nil

APPENDIX 1

Detail of significant changes from HRA business plan model of July 2017

- The model has been updated to reflect the outturn position for 2016/17 which produced a net underspending of £830,600 after taking account of items carried forward to 2017/18.
- Cabinet agreed during 2012/13 to allocate all eligible receipts from right to buy sales to new council housing provision within three years of receipt. The capital programme shown at appendix 2 makes no allowance for any new build schemes that have yet to receive approval. It is envisaged that resources from right to buy receipts will be used to fund the Council's share of any costs of such schemes that may come forward. The revenue implications of the programme are included within appendix 3.
- Assumptions of right to buy sales have increased to 25 per annum to reflect the 27 sales in 2015/16 and 20 sales in 2016/17.
- The model reflects the latest budget estimates for 2018/19
- Reductions in council house rental income of 1.0% per annum for four years from 1 April 2016 until 31 March 2020 are assumed in line with the announcement by the Chancellor of the Exchequer on 8 July 2015
- Rents are assumed to return to CPI+1% following the end of the -1% restriction from 2020/21 (CPI is assumed to be 2.3% per annum)
- No allowance has been made at this stage for any payment to the government in respect of high value properties intended to assist with the funding of the extension of "right to buy" to housing association tenants. The proposals for this scheme have been delayed until at least 2019/20.

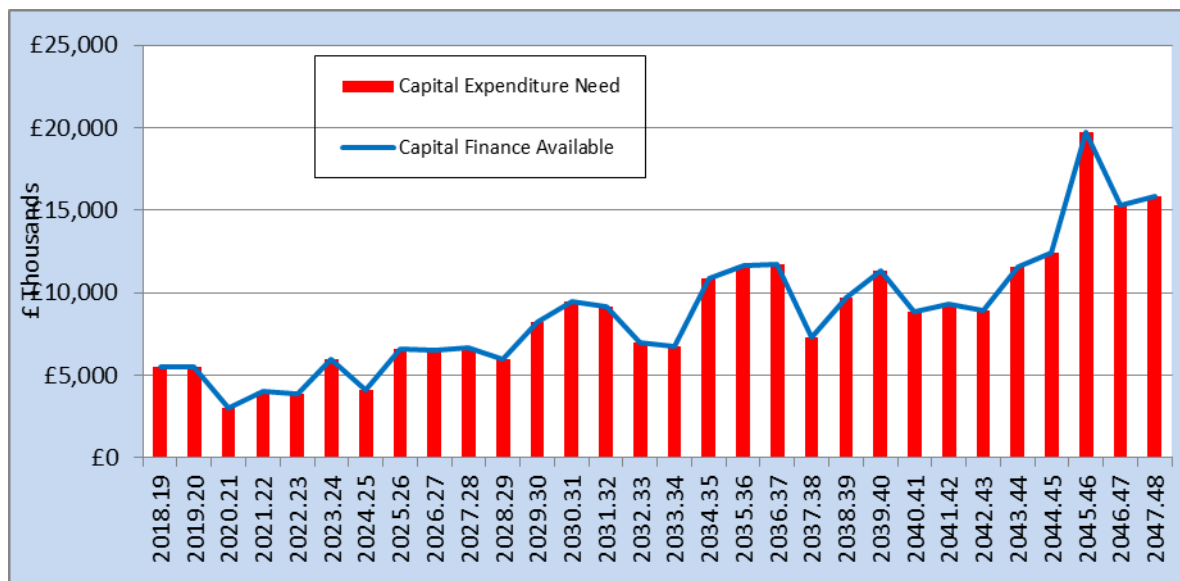
Summary of key results as shown by the model

- The HRA remains viable with a working balance of £1.0m being maintained for the years covered by the model.
- The capital programme has remained largely unchanged from that as included in the model a year ago.
- Headroom of £3.145m against the government's borrowing limit remains available to meet any foreseeable requirements to help finance new build schemes although capital receipts are more likely to be utilised.
- If future rent increases are set below the assumption made in the model then either borrowing will have to be increased (subject to the borrowing limit not being breached) or the capital programme will need to be reduced.

- There is the potential for interest rate risk with regards to the re-financing of existing loans that mature and any new borrowing that is undertaken. An additional 1% interest has been allowed for in the model from 2021/21 to reflect the potential increase in the cost of debt. However, the actual cost of debt in respect of maturing and new loans may be higher or lower than this.

The model indicates that sufficient capital resources will be available to meet the planned capital spend over the lifetime of the programme. This is shown in figure 1:

Figure 1: Planned capital spending and capital financing 2018/19 to 2047/48



The planned capital financing is a primarily combination of revenue funding and the use of receipts from the sale of properties under right to buy with additional borrowing required from 2029/30. It is assumed that as current loans mature they will be replaced with similar loans rather than the level of debt being reduced. This has two significant impacts:

- repayment of debt will not be achieved over the lifetime of the plan – the revised plan indicates that the debt balance at 2047/48 will still be £78.688m
- the interest rate exposure risk is increased as interest rates may be higher at the point of financing than the current rates applicable.

In order to reduce this risk over time it will be necessary to reduce the level of capital spending and/or increase net income to the HRA so that a higher proportion of the annual balance on the HRA can be allocated to the repayment of debt.

APPENDIX 2

Detailed planned capital programme with financing

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Expenditure	5,508	5,508	2,979	4,055	3,824	5,965	4,062	6,588	6,487	6,644
Funding:										
Major Repairs Reserve	3,717	4,238	2,805	3,879	3,648	5,789	3,886	6,412	5,025	4,990
Right to Buy Receipts	172	172	174	176	176	176	176	176	176	176
HRA CFR Borrowing	0	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	0	0	0	0	0	0	0	0	0	0
HRA Reserves	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	1,619	1,098	0	0	0	0	0	0	1,286	1,478
Total Capital Funding	5,508	5,508	2,979	4,055	3,824	5,965	4,062	6,588	6,487	6,644

Year	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Expenditure	5,988	8,235	9,472	9,127	6,952	6,771	10,834	11,605	11,685	7,310
Funding:										
Major Repairs Reserve	5,124	5,262	5,403	5,548	5,696	5,848	6,004	6,164	6,328	6,496
Right to Buy Receipts	176	176	176	176	176	176	176	176	176	176
HRA CFR Borrowing	0	407	1,445	908	0	0	1,793	2,389	2,298	0
Other Receipts/Grants	0	0	0	0	0	0	0	0	0	0
HRA Reserves	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	688	2,391	2,448	2,495	1,080	747	2,861	2,876	2,883	638
Total Capital Funding	5,988	8,235	9,472	9,127	6,952	6,771	10,834	11,605	11,685	7,310

(Please note that figures may not add up exactly due to rounding)

Detailed planned capital programme with financing (Continued)

Year	2038/39	2039/40	2040/41	2041/42	2042/43	2043/44	2044/45	2045/46	2046/47	2047/48
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Expenditure	9,662	11,339	8,824	9,290	8,904	11,564	12,384	19,736	15,308	15,813
Funding:										
Major Repairs Reserve	6,668	6,845	7,025	7,211	7,401	7,595	7,795	7,999	8,208	8,423
Right to Buy Receipts	176	176	176	176	176	176	176	176	176	176
HRA CFR Borrowing	0	1,110	0	0	0	6	540	7,746	3,224	3,545
Other Receipts/Grants	0	0	0	0	0	0	0	0	0	0
HRA Reserves	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	2,818	3,208	1,623	1,903	1,328	3,787	3,873	3,816	3,700	3,669
Total Capital Funding	9,662	11,339	8,824	9,290	8,904	11,564	12,384	19,736	15,308	15,813

(Please note that figures may not add up exactly due to rounding)

APPENDIX 3

Detailed HRA summary

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
INCOME:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rental Income	15,238	15,001	15,409	15,827	16,256	16,696	17,147	17,610	18,085	18,572
Void Losses	84	83	85	87	90	92	95	97	100	102
Service Charges	804	831	858	886	915	946	977	1,009	1,042	1,077
Non-Dwelling Income	290	300	310	320	330	341	353	364	376	389
Grants and Other Income	0	0	0	0	0	0	0	0	0	0
Total Income	16,416	16,214	16,661	17,120	17,591	18,075	18,571	19,080	19,603	20,140
EXPENDITURE:										
General Management	(2,275)	(2,332)	(2,391)	(2,452)	(2,514)	(2,578)	(2,643)	(2,710)	(2,778)	(2,870)
Special Management	(1,850)	(1,897)	(1,945)	(1,994)	(2,044)	(2,096)	(2,149)	(2,204)	(2,259)	(2,334)
Other Management	(454)	(465)	(477)	(489)	(501)	(514)	(527)	(541)	(554)	(573)
Bad Debt Provision	(100)	(98)	(101)	(104)	(107)	(110)	(113)	(116)	(119)	(122)
Responsive/Cyclical Repairs	(3,565)	(3,661)	(3,767)	(3,876)	(3,988)	(4,103)	(4,221)	(4,343)	(4,468)	(4,597)
Total Revenue Expenditure	(8,243)	(8,453)	(8,681)	(8,914)	(9,154)	(9,400)	(9,653)	(9,913)	(10,179)	(10,496)
Interest Paid	(2,262)	(2,206)	(2,127)	(2,838)	(2,790)	(2,736)	(2,675)	(2,608)	(2,558)	(2,532)
Interest Received	96	62	37	56	68	62	55	45	24	22
Depreciation	(3,924)	(4,031)	(4,140)	(4,253)	(4,368)	(4,486)	(4,607)	(4,732)	(4,859)	(4,990)
Net Operating Income	2,084	1,586	1,750	1,172	1,348	1,514	1,691	1,873	2,030	2,144
APPROPRIATIONS:										
Revenue Provision (HRACFR)	0	(3,979)	(1,710)	(1,172)	(1,348)	(1,514)	(1,691)	(1,873)	(745)	(666)
Rev. Contribution to Capital	(1,619)	(1,098)	0	0	0	0	0	0	(1,286)	(1,478)
Total Appropriations	(1,619)	(5,077)	(1,710)	(1,172)	(1,348)	(1,514)	(1,691)	(1,873)	(2,031)	(2,144)
ANNUAL CASHFLOW	465	(3,490)	39	(1)	0	0	0	0	0	0
Opening Balance	3,986	4,451	961	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Closing Balance	4,451	961	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

(Please note that figures may not add up exactly due to rounding)

Detailed HRA summary (Continued)

Year	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38
INCOME:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rental Income	19,071	19,583	20,108	20,647	21,199	21,765	22,346	22,941	23,551	24,176
Void Losses	105	108	111	114	117	120	123	127	130	133
Service Charges	1,112	1,149	1,187	1,226	1,267	1,308	1,352	1,396	1,442	1,490
Non-Dwelling Income	401	415	428	443	457	472	488	504	521	538
Grants and Other Income	0	0	0	0	0	0	0	0	0	0
Total Income	20,690	21,255	21,835	22,430	23,040	23,666	24,308	24,967	25,643	26,337
EXPENDITURE:										
General Management	(2,965)	(3,063)	(3,164)	(3,268)	(3,376)	(3,487)	(3,602)	(3,721)	(3,844)	(3,971)
Special Management	(2,411)	(2,491)	(2,573)	(2,658)	(2,745)	(2,836)	(2,930)	(3,026)	(3,126)	(3,229)
Other Management	(591)	(611)	(631)	(652)	(673)	(696)	(719)	(742)	(767)	(792)
Bad Debt Provision	(125)	(129)	(132)	(135)	(139)	(143)	(147)	(151)	(155)	(159)
Responsive/Cyclical Repairs	(4,729)	(4,866)	(5,006)	(5,149)	(5,297)	(5,449)	(5,606)	(5,766)	(5,932)	(6,101)
Total Revenue Expenditure	(10,822)	(11,158)	(11,505)	(11,863)	(12,231)	(12,611)	(13,003)	(13,407)	(13,823)	(14,253)
Interest Paid	(2,489)	(2,467)	(2,502)	(2,546)	(2,535)	(2,468)	(2,464)	(2,543)	(2,631)	(2,631)
Interest Received	22	22	22	22	22	22	22	22	22	22
Depreciation	(5,124)	(5,262)	(5,403)	(5,548)	(5,696)	(5,848)	(6,004)	(6,164)	(6,328)	(6,496)
Net Operating Income	2,277	2,390	2,447	2,495	2,600	2,761	2,860	2,876	2,883	2,980
APPROPRIATIONS:										
Revenue Provision (HRACFR)	(1,589)	0	0	0	(1,520)	(2,014)	0	0	0	(2,340)
Rev. Contribution to Capital	(688)	(2,391)	(2,448)	(2,495)	(1,080)	(747)	(2,861)	(2,876)	(2,883)	(638)
Total Appropriations	(2277)	(2,391)	(2,448)	(2,495)	(2,600)	(2,761)	(2,861)	(2,876)	(2,883)	(2,979)
ANNUAL CASHFLOW	0	0	0	0	0	0	(1)	0	0	1
Opening Balance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	999	999
Closing Balance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	999	999	1,001

(Please note that figures may not add up exactly due to rounding)

Detailed HRA summary (Continued)

Year	2038/39	2039/40	2040/41	2041/42	2042/43	2043/44	2044/45	2045/46	2046/47	2047/48
INCOME:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rental Income	24,817	25,473	26,147	26,836	27,543	28,268	29,010	29,770	30,549	31,347
Void Losses	137	141	144	148	152	156	160	164	169	173
Service Charges	1,539	1,590	1,642	1,697	1,753	1,810	1,870	1,932	1,996	2,061
Non-Dwelling Income	555	574	593	612	632	653	675	697	720	744
Grants and Other Income	0	0	0	0	0	0	0	0	0	0
Total Income	27,048	27,778	28,526	29,293	30,080	30,887	31,715	32,563	33,433	34,325
EXPENDITURE:										
General Management	(4,102)	(4,237)	(4,377)	(4,522)	(4,671)	(4,825)	(4,984)	(5,149)	(5,319)	(5,494)
Special Management	(3,336)	(3,446)	(3,560)	(3,677)	(3,799)	(3,924)	(4,053)	(4,187)	(4,325)	(4,468)
Other Management	(818)	(845)	(873)	(902)	(932)	(962)	(994)	(1,027)	(1,061)	(1,096)
Bad Debt Provision	(163)	(167)	(172)	(176)	(181)	(186)	(190)	(195)	(200)	(206)
Responsive/Cyclical Repairs	(6,276)	(6,456)	(6,640)	(6,830)	(7,025)	(7,225)	(7,431)	(7,643)	(7,860)	(8,084)
Total Revenue Expenditure	(14,695)	(15,151)	(15,622)	(16,107)	(16,607)	(17,122)	(17,653)	(18,201)	(18,765)	(19,347)
Interest Paid	(2,580)	(2,596)	(2,585)	(2,523)	(2,449)	(2,406)	(2,416)	(2,573)	(2,780)	(2,908)
Interest Received	22	22	22	22	22	22	22	22	22	22
Depreciation	(6,668)	(6,845)	(7,025)	(7,211)	(7,401)	(7,595)	(7,795)	(7,999)	(8,208)	(8,423)
Net Operating Income	3,127	3,208	3,316	3,475	3,646	3,787	3,873	3,813	3,702	3,669
APPROPRIATIONS:										
Revenue Provision (HRACFR)	(309)	0	(1,693)	(1,572)	(2,318)	0	0	0	0	0
Rev. Contribution to Capital	(2,818)	(3,208)	(1,623)	(1,903)	(1,328)	(3,787)	(3,873)	(3,816)	(3,700)	(3,669)
Total Appropriations	(3,127)	(3,208)	(3,316)	(3,475)	(3,646)	(3,787)	(3,873)	(3,816)	(3,700)	(3,669)
ANNUAL CASHFLOW	(1)	0	1	0	0	0	0	(3)	2	0
Opening Balance	1,001	1,000	1,000	1,000	1,000	1,001	1,000	1,000	997	999
Closing Balance	1,000	1,000	1,000	1,000	1,001	1,000	1,000	997	999	999

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