

## Joint report of the Chief Executive and Deputy Chief Executive

**HOUSING REVENUE ACCOUNT – UPDATE TO BUSINESS PLAN  
FINANCIAL MODEL**1. Purpose of report

To recommend an updated Housing Revenue Account (HRA) financial model to Council for approval reflecting the 2019/20 budget and other recent changes and to note the capacity within the financial model for the provision of new housing.

2. Background

In February 2012 the Council approved a 30 year HRA business plan for the period 2012 through to 2041. This included 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.

This year the modelling has taken place using the services of Jeremy Cookson from GL Hearn. Jeremy worked with the Council on the 2018 review of housing intervention options. The model used for this update is used by over 50 other local authorities. The key assumptions within the financial model are set out in appendix 1 along with the main conclusions. Appendix 2 provides details of the planned capital programme over the 30 year period from 2019/20 to 2048/49 and how this could be financed. Appendix 3 shows how appendices 1 and 2 would impact upon the HRA balance and appendix 4 outlines potential new provision scenarios along with accompanying assumptions.

3. Financial implications

The financial model shows that the HRA is projected to be viable for the next 30 years and there is sufficient flexibility to provide the necessary finance for the capital programme and for a substantial new provision programme.

The 2019/20 capital programme includes £100,000 for a HRA stock condition survey. A progress report is on this agenda. The financial model makes no assumptions with regards to the outcome of the survey. It is anticipated that the results of the survey will be available to inform the production of the 2020/21 budget and subsequent incorporation within a further update of the financial model to be presented to the Housing Committee in 2020.

**Recommendation**

**The Committee is asked to:**

- 1. RECOMMEND to Council that the updated financial model for the Housing Revenue Account be approved.**
- 2. NOTE the capacity within the financial model for the provision of new housing**

Background papers

Nil

## APPENDIX 1

1. Key Assumptions

The updated financial model has been prepared incorporating projections for revenue and capital expenditure based on the 2019/20 budget approved initially by Housing Committee on 16 January 2019 and then by Finance and Resources Committee on 14 February 2019 before final approval by Council on 6 March 2019.

This is a base model and does not include any additional expenditure or financing assumptions in relation to new housing provision other than that already approved by the Housing Committee and Finance and Resources Committee. The financial model therefore includes the following schemes already approved in the 2019/20 Capital Programme:

	£
Buy Back of Former Right to Buy Properties	133,350
HRA Acquisition of properties	1,000,000
Dementia friendly bungalows	270,850
Total	1,404,200

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. In order to mitigate this, the model includes an increase in the provision for interest on loans from year 3 (up from 3.02% to 3.78%). The existing PWLB 30 year maturity (as at 19 August 2019) rate is 2.11%.

The rest of the key assumptions are as follows:

<b>Base Year</b>		2019.20
<b>RPI</b>	From Year:	
	2	2.90%
<b>CPI</b>	From Year:	
	2	2.00%
<b>Opening Dwellings</b>		
Tenanted		4,421
Shared Ownership		-
Leasehold		294
<b>Rents</b>		
Average Rent		£ 70.54
Number of Rent Weeks		48
<b>Voids &amp; Bad debts</b>		
Void Allowance:	From Year:	
	1	1.50%
	2	1.50%
Allowance for Bad Debts:	From Year:	
	1	1.74%
	2	1.00%
<b>Income:</b>		
Non Dwelling Rents		£ 314,800
Charges for Services & Facilities		£ 849,920
Contributions Towards Expenditure		£ -
<b>Right to Buy Sales:</b>		
	Year 1	30
	Year 2	30
	Year 3	30
	Year 4	30
	Year 5	30
	Years 6 to 30	750
Average RTB Value		£ 87,456
Average Discount		£ 30,610
RTB Admin per Sale		£ 1,300
HRA Use of Transaction Costs		100.00%
HRA Use of Allowable Debt		100.00%
HRA Use of LA Assumed Income		100.00%
HRA Use of Buyback allowance		100.00%
HRA Use of Receipts for Replacement Homes		100.00%

**Management Costs:****Tenanted**

Supervision &amp; Management

£	2,928,801
£	-
£	2,928,801

Total

**Service Costs****Tenanted**

Services

£	1,672,637
£	-
£	1,672,637

Total

**Other Expenditure**

Other Revenue Spend

£	98,100
£	-

Miscellaneous Expenditure

**Depreciation**

Depreciation per Unit

£	883.38
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**Revenue Repairs & Maintenance (Cat 1 Only)**

Year 1

£	3,437,021
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Year 2

£	3,437,021
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Year 3

£	3,437,021
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Year 4

£	3,437,021
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Year 5

£	3,437,021
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Years 6 to 30

£	85,925,525
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Total

£	103,110,630
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Real Growth on Other Costs

From Year:

2

0.00%

**Major Repairs & Improvements (Cat 1 Only)**

Year 1

£	5,699,800
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Year 2

£	5,447,881
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Year 3

£	5,330,892
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Year 4

£	3,631,449
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Year 5

£	5,628,545
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Years 6 to 30

£	123,905,296
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Total

£	149,643,863
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Real Growth on Other Costs

From Year:

2

0.00%

**New Build**

Number of New Build Units

12

**Opening Balances**

Revenue Reserves	£	6,796,000
Major Repairs Reserve	£	-
HRA RTB Receipts for Replacement Homes	£	1,039,000
Loans Outstanding	£	81,330,000

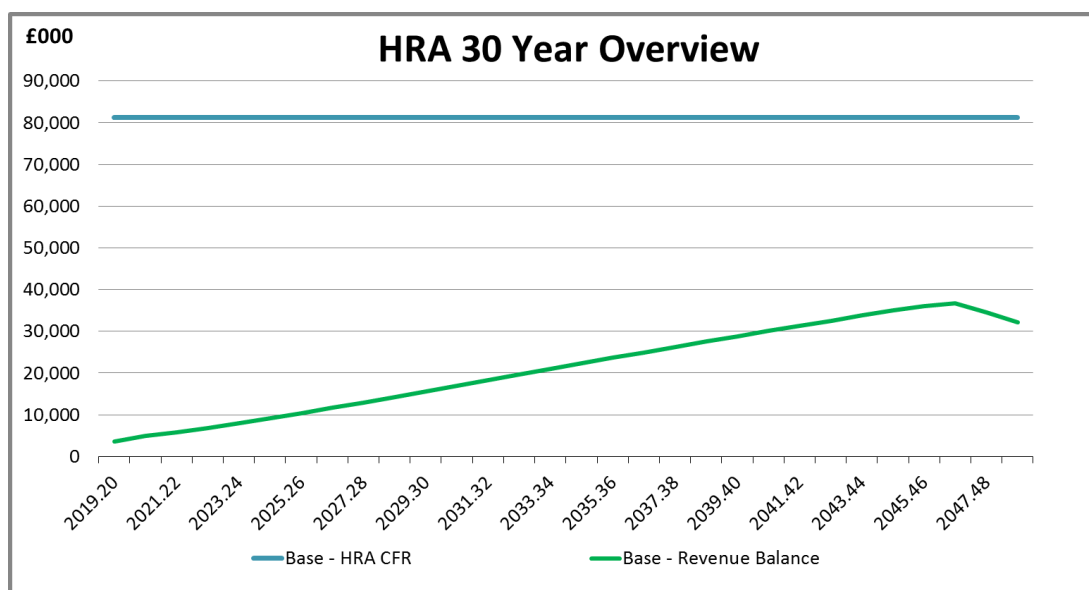
**Borrowing & Interest Rates**

Average interest Rate on Borrowing		
Year 1		3.02%
Year 2		3.02%
Year 3		3.78%
Year 4		3.78%
Year 5		3.78%

Average interest Rate on Investments		
1		3.65%
2		1.73%
3		1.73%
4		1.73%
5		1.73%

2. Main Conclusions

The graph below shows an overview of the financial model represented by the 30 year projections for housing debt and HRA revenue balances.



No assumptions have been made in the model for the repayment of housing debt which remains at £81m throughout the 30 year period. With the absence of loan repayments there is growth in projected housing balances up until 2046/47. Thereafter, revenue contributions to support projections for an increased major works programme (based on the stock condition survey) are required and balances reduce from a high of £37m to £32m in 2048/49.

It is important to note that the model assumes projecting right to buy (RTB) sales of 30 per year and that the base assumptions incorporate approved schemes delivering just 12 new homes (including 2 dementia friendly bungalows). Overall the housing stock within this base plan drops from 4,421 in April 2019 to 3,533 by the end of 2048/49 i.e. a drop of 888 dwellings.

Clearly there is scope within the financial model to support new housing provision. This support can come from a combination of surplus balances, RTB receipts and additional HRA borrowing. In a consultation paper published in August 2018 the Government also stated that it was considering allowing local authorities to “top-up” insufficient Right to Buy receipts with funding from the Affordable Homes Programme. In the absence of further statements on this issue, it can be concluded that there may also be a possibility of accessing grant where the council has insufficient RTB 1-4-1 receipts to meet 30% of new provision costs.

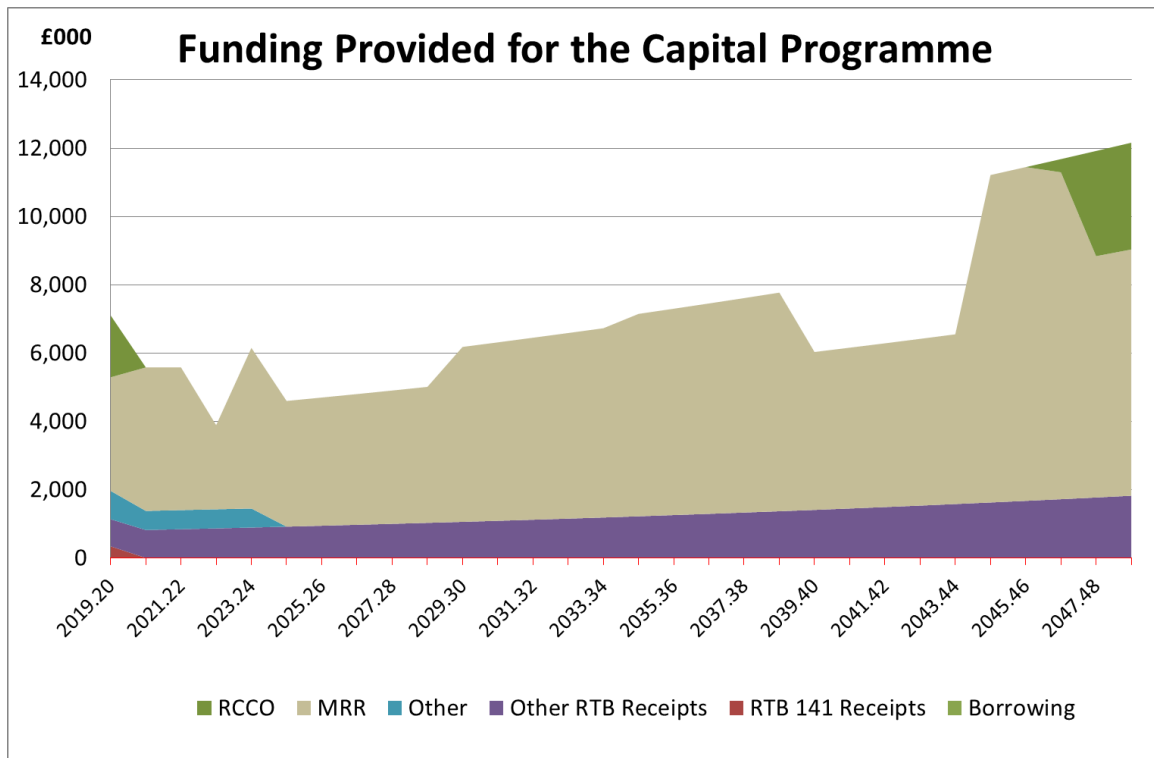
## APPENDIX 2

Detailed Planned Capital Programme and Financing 2019/20 to 2048/49**Major Repairs and Improvements Financing**

(expressed in money terms)

		Expenditure			Financing						
Year	Year	Major Works & Imps	New Build Development Costs	Total Expenditure	Borrowing	RTB 141 Receipts	Other RTB Receipts	Other	MRR	RCCO	Total Financing
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
1	2019.20	5,700	1,404	7,104	0	340	795	830	3,325	1,814	7,104
2	2020.21	5,579	0	5,579	0	0	818	559	4,203	0	5,579
3	2021.22	5,580	0	5,580	0	0	841	559	4,179	0	5,580
4	2022.23	3,888	0	3,888	0	0	866	559	2,464	0	3,888
5	2023.24	6,151	0	6,151	0	0	891	557	4,704	0	6,151
6	2024.25	4,596	0	4,596	0	0	916	0	3,680	0	4,596
7	2025.26	4,696	0	4,696	0	0	943	0	3,754	0	4,696
8	2026.27	4,798	0	4,798	0	0	970	0	3,828	0	4,798
9	2027.28	4,902	0	4,902	0	0	998	0	3,904	0	4,902
10	2028.29	5,008	0	5,008	0	0	1,027	0	3,981	0	5,008
11	2029.30	6,179	0	6,179	0	0	1,057	0	5,123	0	6,179
12	2030.31	6,312	0	6,312	0	0	1,087	0	5,225	0	6,312
13	2031.32	6,448	0	6,448	0	0	1,119	0	5,329	0	6,448
14	2032.33	6,585	0	6,585	0	0	1,151	0	5,434	0	6,585
15	2033.34	6,726	0	6,726	0	0	1,185	0	5,541	0	6,726
16	2034.35	7,146	0	7,146	0	0	1,219	0	5,927	0	7,146
17	2035.36	7,297	0	7,297	0	0	1,255	0	6,043	0	7,297
18	2036.37	7,452	0	7,452	0	0	1,291	0	6,161	0	7,452
19	2037.38	7,609	0	7,609	0	0	1,328	0	6,281	0	7,609
20	2038.39	7,769	0	7,769	0	0	1,367	0	6,402	0	7,769
21	2039.40	6,030	0	6,030	0	0	1,407	0	4,623	0	6,030
22	2040.41	6,156	0	6,156	0	0	1,448	0	4,709	0	6,156
23	2041.42	6,285	0	6,285	0	0	1,490	0	4,795	0	6,285
24	2042.43	6,415	0	6,415	0	0	1,533	0	4,882	0	6,415
25	2043.44	6,548	0	6,548	0	0	1,578	0	4,971	0	6,548
26	2044.45	11,213	0	11,213	0	0	1,624	0	9,589	0	11,213
27	2045.46	11,444	0	11,444	0	0	1,671	0	9,773	0	11,444
28	2046.47	11,678	0	11,678	0	0	1,719	0	9,574	385	11,678
29	2047.48	11,917	0	11,917	0	0	1,770	0	7,067	3,080	11,917
30	2048.49	12,160	0	12,160	0	0	1,821	0	7,211	3,127	12,160

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 the following diagram::





## APPENDIX 3

## Operating Account

(expressed in money terms)

Year	Year	Income			Expenditure							Net Operating (Expenditure)	Repayment of loans	RCCO	Surplus (Deficit) for the Year	Surplus (Deficit) b/fwd	Interest	Surplus (Deficit) c/fwd
		Net rent Income	Other income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	Total expenses	Capital Charges								
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
1	2019.20	14,435	1,165	15,599	(4,601)	(3,905)	(3,437)	(98)	(12,042)	(2,456)	1,101	0	(1,814)	(713)	4,003	236	3,526	
2	2020.21	14,905	1,198	16,104	(4,727)	(3,991)	(3,526)	(101)	(12,345)	(2,456)	1,302	0	0	1,302	3,526	114	4,943	
3	2021.22	15,273	1,233	16,507	(4,853)	(4,090)	(3,609)	(104)	(12,656)	(3,074)	776	0	0	776	4,943	122	5,841	
4	2022.23	15,623	1,269	16,892	(4,982)	(4,180)	(3,695)	(107)	(12,964)	(3,074)	855	0	0	855	5,841	143	6,839	
5	2023.24	15,981	1,306	17,287	(5,114)	(4,272)	(3,783)	(110)	(13,278)	(3,074)	934	0	0	934	6,839	162	7,935	
6	2024.25	16,345	1,344	17,689	(5,250)	(4,365)	(3,872)	(113)	(13,600)	(3,074)	1,015	0	0	1,015	7,935	179	9,129	
7	2025.26	16,636	1,383	18,019	(5,389)	(4,460)	(3,963)	(116)	(13,929)	(3,074)	1,016	0	0	1,016	9,129	212	10,356	
8	2026.27	16,932	1,423	18,354	(5,532)	(4,557)	(4,057)	(120)	(14,266)	(3,074)	1,014	0	0	1,014	10,356	245	11,616	
9	2027.28	17,231	1,464	18,695	(5,679)	(4,656)	(4,153)	(123)	(14,611)	(3,074)	1,010	0	0	1,010	11,616	280	12,906	
10	2028.29	17,535	1,506	19,042	(5,830)	(4,757)	(4,250)	(127)	(14,963)	(3,074)	1,004	0	0	1,004	12,906	315	14,225	
11	2029.30	17,844	1,550	19,394	(5,984)	(4,859)	(4,350)	(131)	(15,324)	(3,074)	995	0	0	995	14,225	343	15,563	
12	2030.31	18,157	1,595	19,752	(6,143)	(4,964)	(4,452)	(134)	(15,694)	(3,074)	984	0	0	984	15,563	361	16,907	
13	2031.32	18,474	1,641	20,115	(6,306)	(5,070)	(4,557)	(138)	(16,071)	(3,074)	970	0	(0)	970	16,907	380	18,257	
14	2032.33	18,796	1,689	20,485	(6,473)	(5,179)	(4,663)	(142)	(16,458)	(3,074)	953	0	0	953	18,257	398	19,608	
15	2033.34	19,123	1,738	20,861	(6,645)	(5,290)	(4,772)	(146)	(16,853)	(3,074)	933	0	0	933	19,608	417	20,959	
16	2034.35	19,454	1,788	21,242	(6,821)	(5,402)	(4,884)	(151)	(17,258)	(3,074)	910	0	0	910	20,959	433	22,302	
17	2035.36	19,789	1,840	21,630	(7,001)	(5,517)	(4,998)	(155)	(17,671)	(3,074)	884	0	0	884	22,302	447	23,634	
18	2036.37	20,130	1,894	22,023	(7,187)	(5,634)	(5,114)	(159)	(18,095)	(3,074)	854	0	(0)	854	23,634	461	24,949	
19	2037.38	20,475	1,948	22,423	(7,377)	(5,753)	(5,233)	(164)	(18,528)	(3,074)	821	0	(0)	821	24,949	475	26,245	
20	2038.39	20,824	2,005	22,829	(7,573)	(5,874)	(5,355)	(169)	(18,970)	(3,074)	785	0	0	785	26,245	488	27,518	
21	2039.40	21,179	2,063	23,242	(7,773)	(5,998)	(5,479)	(174)	(19,423)	(3,074)	744	0	0	744	27,518	516	28,778	
22	2040.41	21,538	2,123	23,661	(7,979)	(6,123)	(5,606)	(179)	(19,887)	(3,074)	700	0	0	700	28,778	562	30,040	
23	2041.42	21,901	2,185	24,086	(8,190)	(6,251)	(5,735)	(184)	(20,360)	(3,074)	651	0	0	651	30,040	608	31,300	
24	2042.43	22,270	2,248	24,518	(8,406)	(6,381)	(5,868)	(189)	(20,845)	(3,074)	599	0	0	599	31,300	656	32,554	
25	2043.44	22,643	2,313	24,956	(8,629)	(6,514)	(6,003)	(195)	(21,340)	(3,074)	541	0	0	541	32,554	703	33,798	
26	2044.45	23,021	2,380	25,401	(8,857)	(6,649)	(6,141)	(200)	(21,847)	(3,074)	480	0	0	480	33,798	712	34,990	
27	2045.46	23,404	2,449	25,853	(9,091)	(6,786)	(6,283)	(206)	(22,365)	(3,074)	413	0	0	413	34,990	681	36,084	
28	2046.47	23,791	2,520	26,311	(9,331)	(6,925)	(6,427)	(212)	(22,895)	(3,074)	342	0	(385)	(43)	36,084	647	36,687	
29	2047.48	24,183	2,593	26,777	(9,578)	(7,067)	(6,574)	(218)	(23,437)	(3,074)	265	0	(3,080)	(2,815)	36,687	610	34,483	
30	2048.49	24,580	2,669	27,249	(9,831)	(7,211)	(6,724)	(225)	(23,991)	(3,074)	184	0	(3,127)	(2,944)	34,483	571	32,110	

## APPENDIX 4

New Provision Scenarios

New provision of council housing may be through acquisitions or new build. Ten new provision scenarios are illustrated in the model. These scenarios don't distinguish between acquisition and new build and the costings are only intended to be indicative.

Retained RTB receipts (1-4-1 receipts) may be used to fund up to 30% of the cost of new provision. However, the availability of these receipts depends on numbers of RTB sales and the discounted sale prices achieved. In Broxtowe's case modelling indicates that there will be insufficient to cover 30% of the cost of replacing homes sold under RTB. The shortfall will therefore have to be met either from other HRA resources or Affordable Housing Programme grant (subject to successful grant applications).

The scenarios modelled do not relate to specific schemes but instead are intended to give an indication of the capacity within the HRA to fund new housing. They cover programmes over a ten year period and deliver between 30 and 120 homes per year. The scenarios also compare the implications of:

- Schemes based on Social Housing rents with schemes using the higher Affordable Housing rents
- Accessing (or not accessing) Affordable Housing Programme grant

The table on the next page sets out each scenario comparing a range of performance factors, including debt per unit, net present value and the impact on HRA balances and loans outstanding.

Illustrative Outcomes from New Provision Scenario Modelling - 10 Year Programme														
Ref	New rented housing per year	Total over 10 Years	Affordable Rent : Social Rent	Grant status	Total Dev. Cost £000	% Funded from 141 receipts + grant	Debt per unit £000	Total Extra Debt £000	Net Present Value £000	Net Present Value per unit £000	Year 30 HRA Debt £000	Year 30 HRA Rev Balance £000	Year 30 Debt Less Rev £000	
	Base Business Plan										81,330	32,110	49,220	
1	Replace RTBs	30	300	0:100	No Grant	46,215	15%	78	23,434	(7,417)	(25)	104,764	11,097	93,667
2	Replace RTBs	30	300	100:0	No Grant	46,215	15%	74	22,276	(5,222)	(17)	103,606	18,899	84,707
3	Replace + 50%	45	450	0:100	No Grant	69,323	10%	112	50,517	(13,563)	(30)	131,846	2,046	129,800
4	Replace + 50%	45	450	100:0	No Grant	69,323	10%	105	47,166	(10,270)	(23)	128,496	12,152	116,344
5	Max	50	500	0:100	No Grant	77,026	9%	126	62,778	(15,622)	(31)	144,107	2,035	142,072
6	Max	70	700	100:0	No Grant	107,836	6%	128	89,914	(18,762)	(27)	171,245	2,048	169,197
7	Replace RTBs	30	300	0:100	With Grant	46,215	30%	50	15,023	(2,421)	(8)	96,353	18,683	77,670
8	Replace RTBs	30	300	100:0	With Grant	46,215	30%	46	13,865	(226)	(1)	95,195	26,485	68,710
9	Replace + 50%	45	450	0:100	With Grant	69,323	30%	71	32,155	(3,542)	(8)	113,485	15,553	97,932
10	Replace + 50%	45	450	100:0	With Grant	69,323	30%	68	30,418	(250)	(1)	111,748	27,257	84,491
11	Max	100	1000	0:100	With Grant	154,052	30%	95	94,969	(7,870)	(8)	176,299	4,076	172,223
12	Max	120	1200	100:0	With Grant	184,862	30%	94	113,179	(690)	(1)	194,509	31,111	163,398

## Notes:

- Social Rents = Average Broxtowe formula rent + 10% (assuming higher capital values) - £80.78 per 52 week rent in 2019/20
- Affordable Rents – based on 80% of market rent - £92.00 per 52 week rent in 2019/20
- Grant = assumption that grant will cover shortfall of RTB 141 receipts i.e. bringing total to 30% of costs
- Development / acquisition cost = £135k per dwelling, increasing by RPI
- The NPVs are based on a 4% discount rate and a residual value of £135k per unit

The table shows that, even without Affordable Housing Programme grant, a significant new provision programme can be afforded through the HRA. For example, based on the lower of the two rent options (social rents), 50 dwellings per year could be provided whilst with affordable rents this would rise to over 70 dwellings per year.

If it is assumed that Affordable Housing Programme grant will be available to offset shortfalls in RTB 1-4-1 receipts then significantly improved cash flows and net present values can be achieved. With Affordable Housing Programme grant and the higher (affordable) rents, a programme in excess of 120 dwellings per year could be affordable.

These scenarios assume that no debt repayments would be made and that surplus balances would instead be held for future investment i.e. beyond the 10 year period being reviewed.

The table is reliant on the detailed assumptions underpinning the model as set out below.

New Provision Assumptions			
Assumption		Value	Comment
Unit Cost 2019/20		£135,000	Increasing by RPI thereafter
Average Weekly (52 weeks) Rent per dwelling:			
	Social Rented	£80.78	Based on estimate of average Broxtowe formula rent, increased by 10% on the basis that the capital values of the new provision dwellings is likely (in the case of new build) to be higher.
	Affordable Rented	£92.00	Based on an assment of market rents on the Right Move site i.e. average £115 per week for 1 / 2 beds - then multiplied by 80% in accordance with the regulations.
			All rents are increased by CPI + 1% for 5 years and then CPI + 0.5% thereafter
Management Cost - incremental cost per dwelling per year		£265	This is the marginal rate applied in respect of RTB sales. It assumes that 40% of management costs are variable i.e. go up and down in relation to changes in stock numbers
Repairs and Maintenance - incremental cost per dwelling per year		£583	This is the marginal rate applied in respect of RTB sales. It assumes that 75% of repairs costs are variable i.e. go up and down in relation to changes in stock numbers
Major Repairs - incremental cost per dwelling per year		£1,080	This is based on industry formula of build cost x 0.8%. It is in line with the average major repairs expenditure on the existing stock - this averages at £1,051 over the first 10 years of the business plan.
			All cost assumptions are assumed to increase with RPI (2.9%)