Version 1
HMB / Community Services

Housing Revenue Account Mid-Year Financial Review (Business Plan Update)

October 2013

2013/14 to 2042/43

Cambridge City Council

CAMBRIDGE CITY COUNCIL

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Section 1
Introduction

Background

The Housing Revenue Account (HRA) Mid-Year Financial Review is to be read in conjunction with the HRA 30-Year Business Plan approved in February 2012, and the HRA Budget Setting Report of February 2013.

This report provides an opportunity to consider whether there are any material changes which need to be incorporated in year, into the financial planning for the HRA in advance of the 2014/15 budget setting process, recommending any required changes to the financial strategy. The report makes proposals for the development of both revenue and capital budgets for 2014/15, providing an indication of any change in the impact on the 30-year period of the Business Plan.

These changes may include changes in assumptions made, either as a direct result of changes in external factors, economic climate, national policy, legislation and decisions taken locally.

The HRA Mid-Year Financial Review incorporates a review of the current year budget position (2013/14), and updated projections for the 5 years from 2014/15 to 2017/18, to demonstrate the full-year effects of any changes in assumptions and the impact of any changes in service delivery methods.

A key part of the mid-year review processes is the identification of:

- Items which for exceptional reasons, require immediate action or approval (which may include net changes to existing budgets).
- Items which provide context for decisions on the strategy or process, influencing:
    - The level at which any Priority Policy Fund (PPF) is set.
    - The level at which the HRA savings target is set.

Timetable

The financial planning and budget preparation timetable is shown below:

Date	Task
2013	
1 October	Executive Councillor for Housing considers HRA Mid-Year Financial Review and incorporates HMB views in recommendations to Council
10 October	Community Services consider HRA Mid-Year Financial Review
24 October	Council considers HRA Mid-Year Financial Review
2014	
16 January (Provisionally)	Executive Councillor for Housing (at a joint meeting of HMB and Community Services) considers HRA Budget Setting Report, approves rent levels and revenue budgets, following consideration of HMB and Community Services Scrutiny Committee views, making final capital related recommendations to Council
27 February	Council approves HRA Budget Setting Report

The detailed corporate budget timetable is attached at Appendix A, highlighting the aspects relevant to the Housing revenue Account.

Section 2
Housing Stock

Housing and Leasehold Stock

Housing Stock (dwelling stock owned and managed in the HRA)

Housing Category (Including Shared Ownership)	Actual Stock Numbers as at 1/4/2013	Estimated Stock Numbers as at 1/4/2014
General Housing	6,607	6,443
Sheltered Housing	520	506
Supported Housing	24	24
Temporary Housing (Individual Units)	42	42
Temporary Housing (HMO's / EA)	23	23
Miscellaneous Leased Dwellings	19	19
Shared Ownership Dwellings	86	86
Total Dwellings	7,321	7,143

Property Type (Excluding Shared Ownership)	Actual Stock Numbers as at 1/4/2013	Estimated Stock Numbers as at 1/4/2014
Bedsits	112	112
1 Bed	1,819	1,681
2 Bed	2,390	2,382
3 Bed	2,290	2,272
4 / 4+ Bed	104	104
Sheltered Housing	520	506
Total Dwellings	7,235	7,057

Leasehold Stock

At 1st April 2013, the Council retained the freehold and managed the leases for 1,092 leasehold flats.

Section 3
The National Policy Context and External Factors

External Factors

As part of the Housing Revenue Account Mid-Year Financial Review it is considered prudent to review the assumptions made in the original HRA Business Plan and HRA Budget Setting Report approved in February 2013. The impact that external factors, outside of the control of the organisation, have on the operation of the housing business, is key in decision making.

In reviewing financial projections for the future operation of the business, it is imperative that we recognise any significant changes in the assumptions previously made, and react accordingly to include these revised assumptions in our financial models.

Inflation Rates

The base rate of inflation used to drive expenditure assumptions in the HRA financial forecasts is the Consumer Price Index (CPI). Having reviewed changes in this measure of inflation over the past 12 months, the average rate of growth was 2.6%.

This is not considered to be materially different from the 2.5% included in the HRA financial model in the HRA Budget Setting Report, and therefore no change is proposed mid-year.

Expenditure in respect of building maintenance is inflated in the financial forecasts using the Building Cost Information Service (BCIS) all in tender price index. Figures in recent years have shown this measure of inflation to be increasing at lower levels than the standard measures of inflation, with forecasts indicating this index will remain low in the short term, with slow recovery in years to come, until it again outstrips CPI. On the basis of a slow recovery, it is recommended the assumption that this index runs at 2% above CPI for 5 years and then reverts to 1% above CPI, is amended to reflect inflation at 1% above CPI for the duration of the plan.

Interest Rates on Lending

The Council lends externally, on a short-term basis, any cash balances that are held at any point within the financial year. If the balances held relate to the Housing Revenue Account, the interest earned by the authority is credited to the Housing Revenue Account. The level of interest receivable on the investment of balances and reserves currently remains low. Although anticipated to be slow, recovery in the rates available is predicted in the longer term.

Status	Year	Interest Rate Earned on Balances
Council Estimated Rates (Sector)	2013/14	0.64%
	2014/15	0.64%
	2015/16	1.25%
	2016/17	1.25%
	2017/18	1.5%
Average Over Remaining 25 Years of the HRA Business Plan (External Third Party Predictions)	2018/19 to 2042/43	3.8%

In the medium to long-term, if the HRA holds significant cash reserves, set-aside to repay debt in the future, the authority will need to consider forms of longer-term lending of these larger sums, in order to secure the higher rates that are predicted to be available.

Interest Rates on Borrowing

The Council secured preferential borrowing rates from the Public Works Loans Board (PWLB), of between 3.46% and 3.53% for the self-financing loan portfolio taken out on 28th March 2012.

Any additional borrowing must be within the level of the current HRA borrowing cap, resulting in maximum borrowing in the region of £16m. It is still considered likely that this will be facilitated via internal borrowing from the General Fund, subject to the availability of this level of resource at the point at which it is required.

If external borrowing is deemed necessary, the authority has taken advantage of a certainty rate from the PWLB, ensuring that any prudential borrowing for the HRA can be secured at 20 basis points (0.2%) below the standard PWLB lending rates. The agreement runs for a year at a time, with the current agreement expiring in November 2013. If available from November 2013 onwards, the authority will again subscribe to this offer to maintain the greatest degree of flexibility possible.

The external borrowing rate assumed in the HRA Budget Setting Report was 4%, but having reviewed the certainty rates currently available from the PWLB for maturity loans with a 30 year duration, it is considered prudent to increase this assumption to 4.5% as part of the HRA Mid-Year Financial Review.

Right To Buy Sales

Following changes in right to buy legislation from April 2012, made to reinvigorate the scheme, the authority has seen a huge increase in right to buy activity.

During 2012/13, 135 right to buy applications were received and recorded, compared with 48 in the previous year. It is difficult to predict whether this level of activity will continue in the medium to long term, but consideration may need to be given to the staffing resource allocated to this area of activity.

In 2012/13, 41 of the applications proceeded to completion of the sale of the property, compared with only 12 in 2011/12. In the first 3 months of 2013/14, 11 completions took place, indicating that the higher level of sales is continuing. Although impossible to accurately predict future sales, based upon the continued higher level of activity in 2013/14 to date and the suggestion, by Central Government, that the qualifying period will be reduced from 5 years to 3 years, it is considered prudent to continue to assume a level of 42 sales in 2013/14, but to increase the assumption for 2014/15 to 35 sales, before reducing to the ongoing assumption of 28 sales per annum from 2015/16.

Right To Buy Receipts

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

The call on right to buy receipts is as follows:

- Receipts from the first 10 to 17 sales each year (depending upon the year) are split between CLG (75%) and the authority (25%) after allowable deductions. This was assumed in the self-financing settlement and the 25% retained can be spent on any area of our housing capital programme, but currently funds our General Fund Housing expenditure.

- For any further sales over and above the 10 to 17, the first call on the receipts is a sum considered comparable with the debt that the authority holds in respect of each dwelling. These receipts can be used for debt repayment, or alternatively could be used for HRA capital purposes, e.g.; investment in new affordable housing.
- Any residual receipt is known as a one for one (1-4-1) receipt, and in line with the agreement with CLG must be spent to fund the delivery of new social housing, with a maximum of 30% of any dwelling being funded via this mechanism. The balance must be funded from the Council's own resources or through borrowing. There is a 3-year time limit on delivery of the new unit, with the receipt having to be paid to central government, with interest (at 4% above the base rate) if not spent appropriately.

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

As the resource held is capital in nature, the General Fund currently benefits from any interest earned on it. If any unused receipts have to be paid over to central government, the 'penalty' interest payable, will far exceed the level of interest that the General Fund will have earned in the interim.

The table below identifies the current 1-4-1 receipts held by the HRA:

Quarter date for Receipt	Retained 1-4-1 Receipt Value (Per Quarter)	Retained 1-4-1 Receipt Value (Cumulative)	Amount of New Build Expenditure Required (Cumulative)	Deadline for Receipt to be spent on Completed Dwelling
30/6/2012	0.00	0.00	0.00	N/A
30/9/2012	305,694.44	305,694.44	1,018,981.47	30/9/2015
31/12/2012	1,052,927.43	1,358,621.87	4,528,739.57	31/12/2015
31/3/2013	721,056.95	2,079,678.82	6,932,262.73	31/3/2016
30/6/2013	558,506.20	2,638,185,02	8,793,950.07	30/6/2016

It is clear from the above figures, that the authority now needs to urgently consider reviewing the balance of investment in the current HRA Business Plan, between the provision of services, investment in existing housing stock and in delivering or acquiring new affordable housing, before potentially releasing existing and future 1-4-1 receipts directly to Central Government, as delivery of new build affordable housing is only possible if the authority already has the 70% top up funding or the ability to borrow it within its borrowing cap.

The HRA does not currently have sufficient resource or borrowing capacity to fulfil the existing obligations under the 1-4-1 agreement, and consideration needs to be given to addressing this as part of the 2014/15 budget process.

National Housing Policy

National Rent Setting Policy

As part of the Comprehensive Spending Review in 2013, government announced plans for future rent policy for social housing.

The two key announcements as part of this are:

- A proposal to move from the historic inflationary increase in rent levels of RPI (Retail Price Index) plus 0.5% to using CPI (Consumer Price Index) plus 1%, for the period from 2015/16 to 2024/25.
- Indication that rent convergence will not be extended beyond 2014/15.

The commitment to a long term rent policy is intended to provide certainty and stability for both social landlords and investors, and is designed to support providers in securing private finance. It is suggested that on average, RPI has been higher than CPI by 0.5%, with the latest figures showing it to be 0.4% higher. It is argued therefore, that a move from RPI plus 0.5% to CPI plus 1% will be comparable for landlords and tenants over the longer term.

The announcement that there is no intention to extend rent convergence beyond 2014/15 comes with the statement from Communities and Local Government that:

“We expect most landlords to have achieved rent convergence by 2015. By that point, rent convergence policy will have been in place for almost 15 years – this is a significant period of time for landlords to make full use of the rent flexibilities the Government has provided, and most have done so".

Cambridge City Council has followed government guidelines in setting rents since the introduction of rent restructuring, including adhering to the numerous constraints introduced by Communities and Local Government throughout the process. The result is that rent levels for the authority are still considerably below the level of target rents. Many landlords are hugely concerned by these proposals, and Cambridge City Council are not alone in having concerns about their ability to support a debt which was calculated on the basis that rent levels would achieve targets during the life of the business plan, to facilitate debt repayment.

The table below indicates the net impact in the authority's inability to achieve target rents across the housing stock from 2015/16, assuming static stock numbers for indicative purposes. The table combines the difference between ceasing a move to convergence from April 2015 the previous assumption included in the HRA Business Plan, which was that rents continued to move towards target levels by a factor of £2.00 per week each year.

Year	Estimated Average Target Rent	Estimated Average Actual Rent (February 2013 Business Plan)	Estimated Average Actual Rent (With Convergence Ceased)	Rental Differential (Constraint Applied by Cessation of Convergence)	Annual Shortfall in Income Compared to HRA Business Plan February 2013
2013/14	99.81	92.78	92.78	0.00	0
2014/15	102.81	97.37	97.37	0.00	0
2015/16	105.89	102.12	100.30	1.82	688,411
2016/17	109.07	106.36	103.31	5.77	1,153,656
2017/18	112.34	110.41	106.40	5.94	1,516,774
2018/19	115.71	114.33	109.60	6.12	1,789,113
2019/20	119.18	118.17	112.88	6.30	2,000,932
2020/21	122.76	122.00	116.27	6.49	2,167,361
2021/22	126.44	125.87	119.76	6.68	2,311,095
2022/23	130.24	129.81	123.35	6.88	2,443,482

It is clear from the above table, that an inability to converge rents at target level will have a significant detrimental impact on the Housing Revenue Account. The ability to support the level of debt held, without a negative impact on the quality or volume of services that can be delivered to residents is evident. Over 30 years, the net impact of this single change on the business model is in the region of £22 million.

Some local authorities are considering whether to apply larger rent increases in 2014/15, in an attempt to close the gap between target and actual rents before the revised rent policy comes into force from April 2015. Many may choose to move directly to either target rent or limit rent, despite the fact that this will mean rent increases above the inflation, plus 0.5% plus £2.00 cap that should exist for any one household. At April 2013, 158 were being charged at target rent, with the variance between target and actual for the rest of the housing stock ranging between £.0.31 and £40.28 per week on a 52 week basis. The average difference between target and actual rent was £7.01 per week on a 52 week basis.

The financial impact of the move to using CPI as the driver for rents inflation, from RPI, is more difficult to quantify, as historically these rates have been volatile, and both have been higher and lower than each other at different times. In recent years, RPI has proved to be the higher of the two rates, with a differential of approximately 0.5%, suggesting that the impact of a change from RPI plus 0.5% to CPI plus 1% may not be significantly different for tenants in real terms over the longer term. The HRA Business Plan incorporated the assumption that the base rate of inflation, whether RPI or CPI, was the same, so as not to assume that rents increased at a far greater pace than the associated expenditure. Many other local authorities will have assumed that RPI drives both income and expenditure, thus also using the same base rate of inflation for both income and expenditure. This assumption means that any move to **inflation plus 1%,** from **inflation plus 0.5%,** for rents, will have a positive impact on our business model, and would in fact negate the financial impact of our inability to move to target rents.

Proposed changes to social housing rent setting policy will be consulted upon by Communities and Local Government prior to implementation, but Government Spending Plans have already been constructed incorporating the assumptions described above.

Welfare Reforms

April 2013 saw the removal of the subsidy on bedrooms deemed to be ‘spare’ for working age tenants, which impacted less than 500 City Council residents. This number was lower than the 600 originally anticipated due to a combination of changes in household circumstances and award of Discretionary Housing Payments (DHP). Under these changes, housing benefit entitlement for a household considered to be under-occupying by one bedroom is reduced by approximately 14%, and by two bedrooms by approximately 25%.

Discretionary Housing Payments are being considered by the Housing Benefits Service on a case by case basis, with time-limited top up payments being awarded, from a finite allocation of resource, to allow tenants the time to make alternative housing arrangements. In some cases, tenants are registered with Homelink, and are actively looking to downsize to a property which suits their household size in Housing Benefit terms. DHP can be awarded to meet the additional rent payments whilst this takes place. At the end of August 2013, it was estimated that 45% of residents affected were paying the additional rent due, with an estimated £29,000 of arrears relating households affected by the social sector size criteria reduction. It is estimated that 77% of residents affected are now paying, due to increased staffing input from City Homes.

The Benefit Cap (a cap of £500 per week for families, and £350 per week for a single person) was introduced later than anticipated, effective from 15th July 2013. Although the full impact for City Council tenants has not been fully realised,10 cases had been notified to us by the Department for Work and Pensions (DWP) at the time of writing this report.

The introduction of Universal Credit, which replaces a range of existing means-tested benefits and tax credits with a single payment, has been delayed, with additional pilot projects expected to take place during the autumn of 2013. Introduction in Cambridge is now anticipated to be no earlier than October 2014.

From the point of introduction, new claimants for Job Seekers Allowance (working age and income based), Income Support, Employment & Support Allowance (income related), Child Tax Credit, Working Tax Credit and Housing Benefit, will claim Universal Credit. Claimants will be paid directly, and will receive monthly payments, in arrears, administered centrally by the DWP. Pensioners continue to be excluded from these arrangements at present.

The impact of these reforms in respect of our housing business is still difficult to quantify, but the experience of many of the pilot authorities, with the need to collect 100% of rent directly from tenants as opposed to less than 50%, is a significant increase in rent arrears and in collection and recovery costs.

Supporting People

Uncertainties continue to exist in respect of the funding, managed on a county-wide basis by Cambridgeshire County Council, for the provision of support services in the city. Cambridge City Council are still currently contracted to deliver support services in sheltered housing, extra care housing and temporary accommodation across the housing stock.

The current contracts are operating under temporary extensions whilst the County Council decide upon the most appropriate delivery vehicle for the future, whether this is a formal tender, or some form of partnership agreement. It is clear that financial pressures for the County Council continue to drive the need for services to be delivered with significantly lower level of funding in the future.

The table below summarises the current funding received for the provision of support services, highlighting the current contractual position for the authority.

Contract	No. of Units	Contract Status	Estimated Support Income 2013/14 (£)	Risks / Ongoing Assumptions
Temporary Housing (116 Chesterton Road) Temporary Housing (New Street) Temporary Housing (Dispersed Tenancies) Temporary Housing (Shared Houses)	60	Block Gross Contract – Extension Expires 31/3/2014.	132,070	Supporting People could tender the service, with the City council being unsuccessful.
Sheltered Housing	468	Fixed Price Block – Re-extension Expires 31/3/2014	212,450 (net income for 12 months)	Tender documents were anticipated in July 2013, but current decision by County Council is to enter into discussions with the City Council, with the outcome yet unknown.
Community Alarms	44	Anticipated to expire 31/12/2013 in line with sheltered housing contracts.	9,310	Potential to contract direct with each landlord in isolation or let a contract county-wide.
Ditchburn Place (Extra Care)	36	Block Gross Contract (Part of Care Contract) – Expires 25/1/2014. Request by County to extend contract until 31/3/2015.	45,740	Extension carries financial risks for the General Fund, as care is currently being subsidised by the City Council.
Total Maximum Support Income (Gross of Voids)			**399,570**	

Section 4
Housing Service Mid-Year Budget Issues

2012/13 Outturn

The position at outturn for 2012/13 has been scrutinised and changes to the 2013/14 budget and beyond as part of the HRA Mid-Year Financial Review are recommended as a result. Areas of particular under and over-spending in 2012/13 have been investigated to determine whether variances from the budget were one-off, with appropriate explanation, or demonstrated potential patterns in spending for the future. Changes proposed are detailed in Section 9 of this document, and are included in the HRA Summary Statement (2013/14 to 2017/18) at Appendix E.

2013/14 Budgets

HRA General Management

The key issues affecting estimated general management expenditure for 2013/14 and future years relate predominantly to the changes either being experienced, or anticipated, as part of the Welfare Reforms. It is currently difficult to accurately predict the impact that these changes will have on the workload of existing staff in City Homes and the Business Team, the increase in collection costs that will occur and the impact that will be experienced in the level of rent arrears, and therefore potentially bad debt for the HRA.

The ongoing mid-year revenue savings in general management expenditure incorporated as part of the HRA Mid-Year Financial Review forecast include:

- £12,430 reduction in the budget for Resident Involvement, from 2013/14, following a revised approach to the delivery of this service. This saving is offered, after allowing for the employment of a third team member in the Resident Involvement Team and the construction of a planned programme of spending in line with the proposals previously presented to HMB.

- £14,350 reduction in Strategic Housing overheads, from 2013/14, incorporating savings in external audit fees, stock valuation costs, training and rent collection charges.
- £10,000 reduction in City Homes overheads, from 2013/14, incorporating savings in equipment purchase, telephone costs and consultants fees.
- £57,600 anticipated savings in IT costs, from 2014/15, as a direct result of a change in supplier from July 2013.

The HRA Mid-Year Financial Review has also identified one-off reductions in general management budgets in 2013/14 and one-off additional income expectations, including:

- £102,000 saving in 2013/14, recognising the deferred need to meet rent collection costs for 100% of tenants, due to delays in the implementation of Universal Credit until October 2014 at the earliest.

HRA Special Services

The greatest areas of uncertainty across special services are the anticipated changes in the delivery and funding mechanisms for the provision of support services, where the County Council are yet to confirm the final position from 2014/15 onwards and in the delivery vehicle for building cleaning services, where Streets and Open Spaces are in the process of reviewing the provision of these services.

The unavoidable additional revenue funding requirements for HRA special services incorporated as part of the HRA Mid-Year Financial Review forecast include:

- £19,250 per annum, ongoing from 2013/14, in respect of a reduction in the anticipated income for the emergency alarm and response service provided by the Independent Living Service. This is due to a reduction in customer numbers, both in individual private residents and housing association clients.
- £6,000 per annum, ongoing from 2013/14, in respect of an increase in gas usage costs at Ditchburn Place, predominantly due to the nature of services provided on this site.

The ongoing mid-year revenue savings in special service expenditure incorporated as part of the HRA Mid-Year Financial Review forecast include:

- £11,760 per annum, from 2013/14, in respect of communal electricity usage costs, based upon prior year experience.

Repairs & Maintenance

The Repairs and Maintenance Service is still facing the challenges of demonstrating that the responsive repair and void services can be delivered in-house in a more efficient and cost effective manner than could be achieved if the service were to be externalised. Major changes in Information systems during 2013/14 will help to facilitate this.

The unavoidable additional revenue funding requirements for repairs and maintenance incorporated as part of the HRA Mid-Year Financial Review forecast include:

- £45,000 in 2013/14 only, recognising the element of the cost of adjudication with the housing planned maintenance contractor that the authority is required to bear. The arbitration provided a predominantly positive outcome for the HRA overall.

The HRA Mid-Year Financial Review forecast also incorporates one-off reductions in repairs and maintenance budgets in 2013/14, including:

- £100,000 saving in the void repairs budget, based upon a reduction in average void costs due to changes made as part of the Repairs Improvement Plan. A zero based budget exercise will be undertaken as part of the 2014/15 budget process.

HRA Summary Account

The HRA Mid-Year Financial Review forecast also incorporates one-off reductions in summary account expenditure budgets in 2013/14, one-off additional income expectations, and ongoing changes, including:

- £20,000 saving in 2013/14, recognising that there will be no need to obtain external borrowing advice in the current financial year. The provision has currently been retained for future in light of the intention to borrow to fund new build housing.
- £25,000 increase in income in 2013/14, in respect of the capitalisation of the costs of administering a continuing higher level of right to buy sales. This figure is based upon the total value capitalised in 2012/13, with sales in 2013/14 expected to remain at similar levels.
- £192,670 reduction in the annual contribution to the bad debt provision for 2013/14, recognising that the impact of being required to collect 100% of rent directly from tenants will not be realised until 2014/15.
- £122,990 increase in anticipated rental income for 2013/14 compared to original budgets set in February 2013, where specific assumptions were made in respect of rent loss for re-development voids, but now recognising that general voids have been lower in 2013/14 to date, possibly as a direct result.
- £27,530 additional interest payable by the HRA in 2013/14, recognising that the HRA will still be under-financed in year, as debt set-aside was not formally undertaken in 2012/13. Monies available for debt set-aside in 2012/13 were transferred to ear-marked reserve for potential debt redemption or future re-investment to retain maximum future flexibility for the HRA.
- £24,920 reduction in interest received on HRA balances due to a reduction in the anticipated rate for 2013/14 from 0.82% to 0.64%.
- £169,070 ongoing increase in depreciation costs for the housing stock, based upon the latest estimates, and including recognition that the depreciation costs for surplus HRA assets held impacts the revenue bottom line for the HRA.
- £259,410 additional income for the provision of support services in 2013/14, where prudent assumptions were made as part of the 2013/14 budget process, recognising that Supporting People contracts were due to terminate in March 2013. Contract extensions, with no changes in contract values, mean that income is still being received in 2013/14.

Section 5
Revenue Resources – Rent and Other Income

Rent Arrears and Bad Debt Provision

The performance with regard to collection of rent income is key in the delivery of the Housing Revenue Account Business Plan. Rent arrears at 31st March 2013 were £661,246 in respect of current tenants and £862,042 for former tenants.

Performance in the collection of current tenant debt was maintained in 2012/13, and in the early part of 2013/14, despite the economic climate, changes imposed with the removal of the spare bedroom subsidy and the initial impact of the benefit cap, introduced in July 2013. The small number of residents affected by the cap, coupled with additional staffing input into proactive rent arrears support for residents, is expected to allow the HRA to maintain the current level of rent arrears by the end of 2013/14.

However, the position is likely to worsen during 2014/15, with the introduction of Universal Credit, based on the initial experience of pilot authorities seeing a marked increase in the level of rent arrears.

On this basis, the higher level of contribution that was approved for the bad debt provision for 2013/14, assuming the need to collect 100% of rent from April 2013, is not anticipated to be required. The higher level will need to be retained from 2014/15, and further consideration, as part of the 2014/15 budget process, will need to be given to whether this is increased further in light of the experience of the pilot authorities.

At 31 March 2013, the provision for bad debt stood at £1,204,518, representing 79% of the total debt outstanding.

Void Levels

The value of rent not collected as a direct result of void dwellings in 2012/13 was £368,335, representing a void loss of 1.11%, compared with £354,050 in 2011/12, representing a void loss of 1.15%.

Void levels remain high in 2013/14, due to a combination of the sheltered housing refurbishment programme and the re-development programme, where properties are vacated well in advance of works commencing.

On an ongoing basis, an assumption of 1% voids in general housing is still considered prudent.

Rent Restructuring

Rent restructuring, which was designed to ensure consistency in rent levels for all social housing tenants, irrespective of landlord, is now under some scrutiny at national level.

Although introduced in April 2002, the difference between target and actual rents at a local level, combined with the constraints applied by Communities and Local Government, mean that only a small proportion of the City Council's housing stock will achieve target rent levels by April 2015, the point from which the regime may now cease to operate.

At April 2013, the average actual rent was representative of 93% of the average target rent.

If the changes indicated as part of the Comprehensive Spending Review are implemented, with April 2014 being the last time that rents can be increased specifically towards convergence, only a handful of the City Council's housing stock will ever reach target rent, having a significant negative financial impact on the HRA as a housing business.

Rent Policy and Rent Setting

At the start of 2013/14, the average target rent for the general housing stock was £99.81, the limit rent was £96.50 and the average actual rent being charged was £92.78. The limit rent is set by government, and is the rent level over which the HRA would need to pay rent rebate subsidy limitation to the General Fund, impacting the level of subsidy received from the

Department for Work and Pensions for housing benefit payments. From April 2015, the limit rent and the target rent are expected to be set at identical levels, so that rent rebate subsidy limitation no longer exists.

The latest policy allowed for the transition of energy efficient void properties direct to target rent before re-let. Based upon inspections in 2013/14 to date, 64% of void dwellings have an energy efficiency rating of C or above. In the 4 months from April to July 2013, the rent for approximately 54 properties has moved directly to target rent. If this trend were to continue, it could be estimated that 2.2% of the housing stock would move directly to target rent in any one financial year.

Using the average differential between target and actual rents, the decision to move energy efficient voids direct to target rent would result in an additional £59,000 each year, with the annual sum reducing as actual rents neared target rents under the existing rent restructuring formula.

If the proposed cessation of a move to target rents is introduced, it appears there will no longer be the ability to continue with this approach to moving void dwellings to target rent after 2014/15.

Rent levels will continue to be set in January of each year, with the Executive Councillor for Housing having delegated authority to make this decision, following pre-scrutiny by Housing Management Board.

Historically, Cambridge City Council has always set rents in line with government guidelines and the government expectation under self-financing was that this would be expected to continue.

As identified in Section 3, National Housing Policy, significant changes are proposed to national rent setting policy from April 2015, with a view that rent restructuring should be discontinued after 2014/15, irrespective of the disparity that this may leave between local authority and other social housing providers rent levels.

A decision will need to be made as part of the 2014/15 budget process, as to whether the City Council wishes to deviate from government rent setting policy for 2014/15, to mitigate the negative impact on the HRA Business Plan of the proposal to end rent restructuring from 2015/16. For example a move directly to limit rent from April 2014 would see an average increase of £5.38 per week, before inflation. The decision on the level of rent increase to approve will need to be made in the context of the wider budget setting process, taking account of the financial projections for the Housing Revenue Account over the longer term.

Reserves

Housing Revenue Account General Reserves

Reserves are held partly to help manage risks inherent in financial forecasting and budget-setting. These risks include changes in inflation and interest rates, unanticipated service demands, rent and other income shortfalls, and emergencies, such as uninsured damage to the housing stock. In addition, reserves may be used to support the Housing Capital Investment Plan and, in the short-term, to support revenue spending, for example to spread the impact of savings requirements over more than one financial year.

For the Housing Revenue Account the intended target level of reserves remains at £3m, with a minimum level of reserves of £2m.

The impact on HRA reserves for 2012/13, and 2013/14 to date is shown in the table below:

Budgeted or Actual Use of / (Contribution to) HRA Reserves	Financial Year	
	2012/13 £'000	2013/14 £'000
Original Budget (Approved in February)	**2,602**	**(726)**
Carry Forwards (Approved in June)	1,853	3,109
Total Including Carry Forwards	**4,455**	**2,383**
MTS / MFR Mid-Year Review (Approved in October)	99	(579)
Total Including Mid-Year Amendments	**4,554**	**1,804**
Budget Setting Report Revised Budget (February)	57	-
Total Including Revised Budget Changes	**4,611**	**-**
Actual Outturn (Reported in June)	**1,479**	**-**

The original budget for 2013/14 approved a net contribution to reserves of £725,500, recognising the desire to hold target HRA general reserves of £3,000,000. The budget incorporated a revenue contribution of £7,162,340 to fund capital expenditure.

This projection includes the effects of changes in capital resources, incorporation of revenue and capital funding requests included as part of this HRA Mid-Year Financial Review and any requested carry forwards from 2012/13.

The final general HRA reserves position for 31 March 2013 was £5.495,489. This included £3,108,480, which will be required to fund the approved carry forward items.

The revised projection of the use of reserves in the current year (2013/14) now indicates that there is expected to be a net contribution from reserves of £1,804,140.

Earmarked Funds

In addition to General Reserves, the Housing Revenue Account maintains a number of earmarked or specific funds which are held for major expenditure of a non-recurring nature or where the income is received for a specific purpose. See Appendix G for detail. The following funds are currently held:

- Repairs and Renewals
- Major Repairs Reserve
- Shared Ownership
- Tenants Survey
- Aerial Monies
- Pension Fund
- Set-Aside for Potential Debt Repayment or Future Re-Investment

Section 6
Capital - Existing Stock

Stock Condition / Decent Homes

The authority holds validated stock condition data for its housing stock, which is continually updated. However, one of the areas where data gathering and recording is still weak is in respect of the communal areas of both sheltered and flatted accommodation, where an allowance has been made in the financial planning in anticipation of a more detailed investment profile in the future. Staff have now been recruited to allow this piece of work to be progressed during 2013/14.

The housing service reported achievement of the decent homes standard in the housing stock as at 1 April 2013 at 96.5%, compared with just over 96% achieving the desired standard at 1 April 2012. There were 253 properties that were considered to be non-decent (in addition to the 845 refusals), with another 53 anticipated to become non-decent during 2013/14. The local decision to move to an investment standard with shorter lifecycles, results in a level of decency against this higher standard of 89.4% at April 2013. This local standard incorporates shorter lifecycles for kitchens, bathrooms, boilers and windows as part of the advice provided by Savills in the preparations for self-financing. Against this standard, there were 827 properties that were considered to be non-decent (in addition to the 845 refusals), with another 528 anticipated to become non-decent during 2013/14.

Stock Investment

Appendix F provides detail of the 5-Year Housing Capital investment Plan, and incorporates the following items:

- Expenditure as approved in the HRA Budget Setting Report in February 2013.

- Re-phasing of expenditure anticipated to take place in 2012/13 into 2013/14 and beyond, as approved in July 2013.

- Items identified as part of the HRA Mid-Year Financial Review.

- Capital financing has been updated in respect of revised assumptions in right to buy and other capital receipts, revenue funding of capital expenditure and borrowing requirements.

The changes proposed as part of this HRA Mid-Year Financial Review include:

- Re-phasing of expenditure and approval of revised funding requirements, based upon the latest development appraisals for new build / re-development schemes (see table in section 7).
- Removal of the residual budget of £7,000 for the delivery of the first 7 units of new build in Harris Road, Cockerell Road and Church Lane, as all costs have been realised.
- In-year re-allocation of budgets for decent homes and other works to the housing stock in line with contract packages awarded to Apollo, Kier and other contractors under the SCAPE and ESPO frameworks.
- Reduction of £1,878,000 in the allocation for backlog works in 2013/14, re-profiling this funding to the end of the 10-year programme, to 2022/23, recognising difficulties in delivery at the anticipated levels within existing contractual constraints.
- Reduction of £150,000 in the budget for disabled adaptations, recognising that current commitments are not likely to exceed the full budget, which included a significant carry forward from 2012/13.
- Re-phasing of £50,000 of the decent homes budget for wall finishes from 2013/14 into 2016/17, in line with anticipated delivery timescales.
- Re-basing of internal fees, planned maintenance contractor overheads and inflation, recognising both the decision in 2012 to increase In-house staff to deliver higher levels of capital investment in the housing stock and subsequent decisions to re-phase expenditure.

The current HRA Business Plan, and resulting Housing Capital Investment Plan are constructed on the basis of delivering at an investment standard in our housing stock.

As part of the work for the 2014/15 budget, officers will consider the difference in costs of returning to the basic decent homes standard, to provide flexibility to respond to anticipated increased financial pressures elsewhere across the housing service and / or to re-direct into other areas of investment, ie; new build affordable housing.

Significant work is required to ensure that the authority can accurately profile the agreed level of capital investment required in the housing stock over the short to medium term, making sure that delivery is possible in procurement terms in line with investment aspirations.

Section 7
Capital & Asset Management – New Build & Re-Development

Asset Management

Consideration is now being given to strategic acquisition or disposal of assets, following approval of the HRA Acquisition and Disposal Policy in June 2013.

A review is also underway in respect of the HRA's shared ownership portfolio, currently consisting of 86 dwellings, with a view to recommendations for the future being presented to committee in January / February 2014. The review will consider both the condition, use and occupancy of the existing shared ownership stock, and whether the authority should build new shared ownership stock on development sites.

Receipts from asset disposals continue to be recognised in the HRA's reserves only at the point of receipt and after all relevant costs have been provided for.

Outside of the currently approved 3-Year Affordable Housing Programme, the following HRA assets have been, or are being, considered for market acquisition or disposal:

Potential Acquisition/Disposal	Comment	Status
24 Elizabeth Way	Consideration being given to potential market disposal of this vacant dwelling	Under Investigation
1Honey Hill	Offer from owner occupier for consideration of buy back of ex-right to buy dwelling	Under Investigation
18A Magrath Avenue	Dwelling requires significant investment. Potential to dispose of leasehold dwelling to neighbour who would seek to acquire the freehold for the block	Under Investigation

New Build & Re-Development

The Council secured Homes and Communities Agency grant of £2,587,500 towards the development of 146 affordable homes in the city, which form part of the 3-year affordable housing programme.

The Seymour Court / Seymour Street site is now nearing completion, and will be re-let as Jane's Court in the autumn of 2013.

At the time of writing this report, approximately 90% of residents affected by the re-development programme had been re-housed and 6 of the 19 leasehold re-purchases required had taken place.

As each scheme receives specific committee approval, the indicative cost of the scheme is incorporated into the Housing Capital Investment Plan. As the scheme design progresses and planning approval is sought, revised and more accurate scheme costs are available. As part of the HRA Mid-Year Financial Review, the latest scheme appraisal costs have been incorporated into the financial models, and therefore the Housing Capital Investment Plan. These costs will still not be the finally agreed contractual sums that the authority enters into, but will ensure that the most up to date data is being utilised.

Scheme	Committee Approved Social Housing Units	Committee CCC Funding Approval (capital cost net of grant & land transfer)	Revised Social Housing Units for Approval	Revised CCC Funding for Approval (capital cost net of grant and land transfer)
Seymour Court	21	953,000	20	878,440
Latimer Close	12	1,1,81,590	12	1,250,180
Barnwell Road	16	938,160	12	1,094,750
Campkin Road	18	2,144,740	20	2,451,640
Colville Road	21	1,344,950,	19	1,304,920
Water Lane	14	1,180,790	14	1,384,170
Aylesborough Close	16	2,033,610	21	2,543,670

Scheme	Committee Approved Social Housing Units	Committee CCC Funding Approval (capital cost net of grant & land transfer)	Revised Social Housing Units for Approval	Revised CCC Funding for Approval (capital cost net of grant and land transfer)
Stanesfield Road	5	608,550	4	554,020
Wadloes Road	6	663,110	6	646,530
Atkins Close (Garage Site)	7	583,000	8	601,070
Hawkins (Garage Site)(*)	0	0	5	513,590
Fulbourn (Garage Site)(*)	0	0	4	252,670
Ekin Road (Garage Site)(*)	0	0	4	403,140
Yet to be allocated to Specific Schemes	10	671,660	0	0
Total	**146**	**12,303,160**	**149**	**13,878,790**

(*) Some of the above schemes are still at viability stage, and therefore have not yet received formal planning approval. As such, it is not guaranteed that schemes will proceed if they prove to be either financially or technically unviable. The net funding approval identified above assumes delivery of a 60/40 split of affordable versus market housing across the programme. As part of the scheme proposals being presented in this committee cycle, consideration is given to the option of delivering 100% affordable housing on these sites, with delegations sought for final approval of the option which deliver the best results.

The Housing Capital Investment Plan, an updated version of which is attached at Appendix F, incorporates the funding for new build schemes as identified in the table above, recognising the need for gross spend on the affordable housing scheme, land values and grant receipts to be shown separately, but arriving at the net cash cost to the Council as per the table above.

If the option to deliver 100% affordable housing on any of the latter sites is approved, any changes in funding requirements will be incorporated as part of the HRA Budget Setting Report in January / February 2014.

The Council has procured Hill Partnerships to develop out the Clay Farm site, to include 105 new Affordable Housing dwellings for the Council. Funding for the scheme has been earmarked in the HRA Business Plan, but a final funding model requires approval by Community Services Committee once a detailed scheme has been drawn up for planning approval.

City Deal

The Council has included two significant requests to government under the City Deal bid that, if progressed, would significantly benefit the HRA Business Plan. First a controlled relaxation of the debt cap has been proposed and secondly the three year time frame to reinvest RTB receipts has been requested to be extended to five years.

Section 8
Summary and Conclusions

HRA Budget Strategy

The Budget Process

The HRA budget process for 2014/15 will remain broadly similar to that for previous years, working within cash limited budgets, and considering savings in general management and repairs administration, to meet both known financial pressures and to create policy space to allow for strategic re-investment in housing services. The key changes proposed are:

- Undertaking zero based budget exercises in a number of specific areas, where a wider review of spending is considered appropriate, to include both void and cyclical revenue repairs.
- A special combined meeting of both Housing Management Board and Community Services, to allow decisions to be made that allow rent levels to be set within the statutory timescales, whilst also facilitating consideration of alternative budget proposals, taking account of the inextricable financial links between revenue and capital decisions in the HRA.
- In line with tenants views, consideration will be given, as part of the 2014/15 budget process as to whether changes should be made to the balance of expenditure between the level of direct investment in the existing housing stock, in new build affordable housing and in the potential to invest further in housing services, dealing with enquiries, supporting tenants and tackling anti-social behaviour.

The updated base model used to prepare this report has driven the recommendations in respect of the 2014/15 budget process, recommending the level of savings required to meet both current and anticipated spending needs.

The HRA Mid-Year Financial Review has highlighted the need for additional resource in some areas and the ability to offer mid-year savings in others. The inclusion of these in the financial modelling undertaken as part of the review of the HRA, will ensure that the most appropriate decisions can be made in respect of the Housing Revenue Account's approach to setting the 2014/15 budget.

Approach to HRA Savings

The September 2012 HRA Mid-Year Business Plan Update set a target of 1.6% for ongoing savings in general management expenditure for 2013/14, equivalent to £76,880, recognising the desire to continue to create policy space for strategic re-investment. A separate target of £21,310 was set in respect of repairs expenditure, recognising the anticipated reduction in stock numbers. Priority policy funding at the increased level of £150,000 was provided for.

For 2014/15, a sustainable position is sought, continuing to assume that resources are set-aside for the future repayment of debt within the 30-year business plan, whilst utilising HRA reserves and any additional surplus generated, to meet the identified investment need in both the housing stock and in new build affordable housing, maintaining balances at the target level of £3m.

Current financial projections, taking account of revised assumptions and incorporating all changes proposed as part of this HRA Mid-Year Financial Review, indicate a savings requirement of 2% per annum from 2014/15, in order to deliver a sustainable HRA over the next 30 years. This target is set assuming savings in both general management and repairs administration expenditure, which will require savings in the region of £113,000 per annum. This level has been set to include the continued higher provision of £150,000 of priority policy space for 5 years, as outlined in this document. Consideration will be given, as part of the 2014/15 budget process, to whether the level of policy space should be retained at this higher level in the medium term. The financial modelling also continues to incorporate the assumption that responsive repair budgets are adjusted proportionately to reflect anticipated changes in stock numbers.

The position will be reviewed again as part of the February 2014 HRA Budget Setting Report, with a view to achieving a balance between prudence and deliverability, based on the latest information available.

Base Assumptions

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

In all cases, the revised assumptions included are derived from the best information available at the current time, utilising both historic trend data and the expert advice and opinion of specialists in the field of housing finance, lending and borrowing and asset management.
The base financial assumptions included in the financial model are included at Appendix C.

Appendix E summarises the revenue budget position for the HRA for the period between 2013/14 and 2017/18, based upon inclusion of the amended financial assumptions that form part of the revised base self-financing business plan.

Sensitivities

In respect of all of the assumptions that are incorporated into the HRA Business Plan, there continue to be numerous alternative judgements that could have been made. It is not possible to predict accurately what will happen in the future, particularly in respect of external factors completely outside of Council control.

To demonstrate the potential financial impact of any change in key factors, the table at Appendix D indicates either the cost to the HRA or the change in the HRA's ability to pay off debt, with the current base model being amended for a number of individual sensitivities. This will identify only the impact of a single assumption change, and not the compound impact of multiple changes.

Appendix H details a number of identified financial and operational uncertainties, highlighting risks and describing areas of known change but with currently unquantifiable impacts.

Appendix A

Financial Planning Timetable

Date	Major Stage
2013	
23 May	Council adopts Annual Statement setting out plan & priorities for 2013/14
18 Sep	General Fund (GF) Mid-Year Financial Review (MFR) published for S&R Scrutiny Committee
19 Sep	Housing Revenue Account (HRA) MFR published
30 Sep	S&R Scrutiny Committee / Leader recommendation of GF MFR to Council
1 Oct	Housing Management Board (HMB) considers the HRA MFR
10 Oct	Community Services Scrutiny Committee considers the HRA MFR
14 Oct	Accountancy despatch: Budget Process Guidance
	Accountancy despatch: Budget proposals pro-forma to Heads of Service
	Accountancy despatch: Budget Working Papers to Cost Centre Managers
17 Oct	MFR & budget briefing for Heads of Service
Oct	Budget process workshops for managers
24 Oct	Council considers GF and HRA Mid-Year Financial Review reports
8 Nov	Managers to complete and return Budget Proposal Forms to Accountancy · 2013/14 Revised Budget items · 2014/15 Revenue Budget Proposals · 2014/15 Capital Budget Proposals · Outcomes of Service Reviews
15 Nov	Managers return completed budget working papers (incorporating budget proposals)

Date	Major Stage
w/c 18 Nov	Officer Working Groups meet to consider and comment on budget proposals
16 Dec (provisional)	HRA Budget Setting Report 2014/15 published
Dec	Provisional Government Settlement Announcement
2014	
6 Jan	GF budget proposals for Environment and Community Services Scrutiny Committees published
8 Jan	GF Budget Setting Report 2014/15 published for Strategy & Resources Scrutiny Committee
Jan	Final Government Settlement Announcement
14 Jan	Environment Scrutiny Committee consider budget proposals for own portfolios
16 Jan (provisional)	Meetings of Community Services Scrutiny Committee and Housing Management Board (Special) consider the HRA Budget Setting Report Community Services considers any Executive & / or Opposition HRA budget amendment proposals relating to capital HMB meeting considers any Executive & / or Opposition HRA budget amendment proposals to revenue budget and / or rent levels Executive Councillor for Housing approves rent levels and revenue budgets. Executive Councillor makes final capital proposal recommendations to Council.
16 Jan	Community Services Scrutiny Committee consider General Fund budget proposals for its own portfolios
20 Jan	Strategy & Resources Scrutiny Committee considers GF budget proposals for its own portfolios and GF Budget Setting Report
23 Jan	Meeting of The Executive to consider and recommend GF Budget Setting Report and Council Tax requirement
7 Feb	Special Strategy & Resources Scrutiny Committee considers any GF budget amendment proposals
27 Feb	Council approves GF Budget and sets Council Tax (including precepts). Council approves Capital & Revenue Projects Plan (including HRA recommendations)
31 Mar	Approved budget reports to be sent to Cost Centre Managers by Accountancy

Note: Items that are applicable to the HRA are shown as shaded lines.

Appendix B

Key Risk Analysis – New or Amended Risks

Risk Area & Issue arising	Controls / Mitigation Action	Status
Effects of Legislation / Regulation		
Ability to move properties to target rent is constrained by legislative changes	• Impact of proposed changes to national rent policy is incorporated into financial planning. • Consideration could be given to remedial action in 2014/15.	New
External income / funding streams		
Changes to the right to buy rules and pooling regulations result in a continued significant increase in sales and commitment to deliver replacement units or pay over receipts with interest	• Sensitivities modelled so potential impacts are understood • Retained resources are monitored to ensure delivery of required units or return of resource at earliest opportunity	Amended

Appendix C

Business Planning Assumptions (Highlighting Changes)

Key Area	Assumption	Comment	Status
General Inflation (CPI)	2.5%	General inflation on expenditure included at 2.5% (Based upon CPI to June 2013), from 2014/15.	Retained
Capital Programme Inflation	**3.5% ongoing**	**Real increase above CPI of 1%.**	**Amended**
Debt Repayment	Set-Aside to Repay Debt	Assumes resource is set-aside to repay debt as loans reach maturity dates.	Retained
Capital Investment	Investment Standard (in 10 Years)	Base model assumes investment standard in the housing stock, compared with a basic decent homes standard. This will be reviewed as part of the 2014/15 HRA BSR.	Retained
Pay Inflation	2.9% for 2014/15, then 4.4%	Assume pay award of 1% and allowance for increments at 1.9% for 2014/15, then re-introducing allowance for pay award at 2.5% from 2015/16 onwards.	Retained
Employee Turnover	3%	Employee budgets - assume an employee turnover saving of 3.0% of gross pay budget for office-based staff.	Retained
Rent Increase Inflation	**3.5% from 2014/15, 3% from 2025/26**	**Rent increases in line with government proposals of RPI at the preceding September plus 0.5% for 2014/15 and then move to CPI plus 1% from 2015/16 to 2024/25. Assume RPI in September 2013 is 3%. CPI as above.**	**Amended**
Rent Convergence	**No**	**Assume that current government proposals inhibit the ability to move to target rents after 2014/15.**	**Amended**
External Lending Interest Rate	**0.64% for 2 years,1.25% for 2 years, then 1.5%**	**Interest rate – based on latest market projections (on average 0.64% for 2013/14 and 2014/15, 1.25% for 2015/16 and 2016/17, then 1.5% from 2017/18.**	**Amended**
Internal Borrowing Interest Rate	**0.64% for 2 years,1.25% for 2 years, 1.5% & 3.8% ongoing**	**Assume the same rate as anticipated can be earned on cash balances held, so as not to detriment the General Fund over the longer term. Long term lending rates taken from information supplied by third party advisors.**	**Amended**
External Borrowing Interest Rate	**4.5%**	**Assumes additional PWLB borrowing at a rate of 4.5%. Current rates for 25 to 50 years range from 4.44% to 4.52%.**	**Amended**
HRA Minimum Balances	£2,000,000	Maintain HRA minimum balance at £2,000,000, recognising increased risks in HRA Self-Financing environment.	Retained
HRA Target Balances	£3,000,000	Maintain HRA target balance at £3,000,000.	Retained
Right to Buy Sales	**42, 35, then 28 sales**	**Reinvigoration of the scheme has prompted increased activity. Assume 42 for 2013/14, 35 for 2014/15, then 28**	**Amended**

Key Area	Assumption	Comment	Status
	ongoing	**per annum.**	
Right to Buy Receipts	**Only settlement right to buy sale receipts included**	**Right to buy receipts in the debt settlement included, assuming the receipts will be utilised partly for general fund housing purposes. Additional receipts anticipated have been excluded, but recognising they are required to be utilised to repay debt, deliver new affordable housing or be paid to CLG in 3 year agreed timescale.**	**Amended**
Void Rates	**Property specific for 2013/14, then 1%**	**Assumes continued higher void rate for 2013/14 based upon actual activity, then 1% assumed from 2014/15 onwards.**	**Amended**
Bad Debts	**0.56% for 2013/14, then 1.12%**	**Historic bad debt provision made in the HRA was increased by 100% from 2013/14 to reflect the requirement to collect 100% of rent directly. Universal credit is delayed until at least April 2014, so amend current year back to 0.56%. Assumes an extension of the existing rent payment profile across the entire housing stock.**	**Amended**
Rent Collection Transactional Costs	**An increase in transactional costs of £100,000 per annum from 2014/15**	**An increase of £100,000 per annum was included from 2013/14, recognising the increase in transactional collection costs associated with the requirement to collect 100% of rent directly from tenants, as opposed to receiving approximately 50% via housing benefit as currently happens. With Universal Credit delayed until April 2014, this assumption has been deferred by one year.**	**Amended**
Debt Management Expenses	**£20,000 per annum**	**Internal treasury management is recharged within existing SLA's. This allows a provision for specialist financial advice in this field, now from 2014/15.**	**Amended**
New Build Programme	250 Units	Assumes delivery of the current 3-year affordable housing investment programme of 146 units, where HCA grant funding has been approved and an additional 104 units on the Clay Farm site in 2016/17.	Retained
Savings Target	**2%**	**A savings target is included in the HRA model, with the assumption that savings and efficiencies will be driven out to allow strategic re-investment. The target is calculated as a percentage of net general management and repairs administration expenditure.**	**Amended**
Responsive Repairs Expenditure	Reduced pro rata to stock reductions	An assumption is made that direct responsive repair expenditure is reduced annually in line with any reduction in stock numbers.	Retained
Policy Space	£150,000	Policy space retained in base model at an increased level for 5 years recognising desire to expand services and respond to external pressures. To be reviewed as part of 2014/15 HRA Budget Setting Report.	Retained
Service Reviews	On case by case basis	Outcomes of service reviews will deliver ongoing benefit to the HRA as indicated in the review business case.	Retained

Appendix D

Business Planning Sensitivity Analysis – New or Amended Sensitivities

Topic	Business Plan Assumption	Key Sensitivity Modelled	Financial Impact
Interest Rates for additional borrowing	PWLB fixed rate maturity loan at 4.5%	Assume fixed rate loan over 30 years, with increase of 2% in interest rates from the outset	Increased interest payable across the life of the business plan equates to £10.925 million.
General Inflation	General Inflation using CPI at 2.5% for expenditure	Volatility in the economy could lead to fluctuation in inflation. 1% increase in general inflation for the life of the plan	Inability to pay off the debt during the life of the business plan.
Rents Inflation	RPI for 2014/15 at 3%, then CPI at 2.5% ongoing for rents base	Volatility in the economy could lead to fluctuation in inflation as measured by CPI. 1% increase in rents base inflation from 2015/16 for the life of the plan	Ability to redeem debt by year 19.
Rent Convergence	No ability to converge rents after 2014/15.	Proposal not yet consulted upon, so assume ability to converge rents is retained.	An additional £103 million received in rental income over the life of the plan.
Capital Investment Real Increase Inflation	Capital Investment Inflation at 1% above CPI	A real increase of 1% is allowed for building inflation. Assume that recovery in the building industry is better than anticipated, with a real inflationary increase of 2% from 2017/18 for the remainder of the plan	Inability to pay off the debt during the life of the business plan.
Right to Buy Sales (Revenue Impact)	Numbers assumed to be 42 in 2013/14, reducing to 35 in 2014/15 and then 28 per annum thereafter.	The increase in discount levels could result in interest at the levels experienced in 2012/13 and 2013/14 to date. Assume sales remain at 42 from 2014/15.	The ability to repay debt is extended by 2 years.
Investment Income	Business Plan assumes interest on balances increasing to 1.5% by 2017/18, then at an average of 3.8% for longer-term investments from 2018/19	Long-term rates may fail to recover as anticipated. Assume ongoing rate at 1.5% for the long-term.	The ability to repay debt is extended by 5 years.

Appendix E

HRA Summary Forecast 2013/14 to 2017/18

Description	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Income					
Rental Income (Dwellings)	(34,195,990)	(35,875,200)	(37,735,740)	(39,714,760)	(40,936,900)
Rental Income (Other)	(1,047,410)	(1,073,600)	(1,100,440)	(1,127,950)	(1,156,140)
Service Charges	(2,104,180)	(2,156,780)	(2,210,700)	(2,265,970)	(2,322,620)
Contribution towards Expenditure	(347,590)	(88,260)	(88,340)	(88,410)	(88,500)
Other Income	(409,030)	(393,630)	(403,470)	(413,560)	(423,900)
Total Income	**(38,104,200)**	**(39,587,470)**	**(41,538,690)**	**(43,610,650)**	**(44,928,060)**
Expenditure					
Supervision & Management - General	4,789,040	4,995,440	5,122,680	5,362,240	5,540,940
Supervision & Management - Special	2,343,370	2,265,370	2,335,550	2,408,090	2,483,060
Repairs & Maintenance	7,049,650	7,293,770	7,607,470	7,974,130	8,299,020
HRA Subsidy	0	0	0	0	0
Depreciation – to Major Repairs Res.	9,811,240	10,177,860	10,471,580	10,872,910	10,829,160
Debt Management Expenditure	(301,330)	25,030	21,490	22,430	23,420
Other Expenditure	526,540	783,150	852,290	925,060	991,610
Total Expenditure	**24,218,510**	**25,540,620**	**26,411,060**	**27,564,860**	**28,167,210**
Net Cost of HRA Services	**(13,885,690)**	**(14,046,850)**	**(15,127,630)**	**(16,045,790)**	**(16,760,850)**
HRA Share of operating income and expenditure included in Whole Authority I&E Account					
Interest Receivable	(79,850)	(55,710)	(85,380)	(84,740)	(101,240)
(Surplus) / Deficit on the HRA for the Year	**(13,965,540)**	**(14,102,560)**	**(15,213,010)**	**(16,130,530)**	**(16,862,090)**
Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance					
Loan Interest	7,501,770	8,072,400	8,065,060	8,018,800	7,919,750
Debt Redemption Premium	301,330	0	0	0	0
Housing Set Aside	0	0	1,709,800	5,690,780	6,252,260
Depreciation Adjustment	(2,280,780)	(2,394,240)	(2,504,670)	(2,582,100)	(2,345,920)
Direct Revenue Financing of Capital	10,247,360	9,077,330	8,001,410	5,047,800	5,034,440
(Surplus) / Deficit for Year	**1,804,140**	**652,930**	**58,590**	**44,750**	**(1,560)**
Balance b/f	(5,495,490)	(3,691,350)	(3,038,420)	(2,979,830)	(2,935,080)
Total Balance c/f	**(3,691,350)**	**(3,038,420)**	**(2,979,830)**	**(2,935,080)**	**(2,936,640)**

Appendix F

Housing Capital Investment Plan (5 Year Detailed Investment Plan)

Description	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
General Fund Housing Capital Spend					
Assessment Centre	151	0	0	0	0
Disabled Facilities Grants	550	550	550	550	550
Private Sector Housing Grants and Loans	195	195	195	195	195
Long Term Vacants	20	20	20	20	20
Total General Fund Housing Capital Spend	**916**	**765**	**765**	**765**	**765**
HRA Capital Spend					
Decent Homes					
Kitchens	255	618	598	292	466
Bathrooms	128	522	525	119	61
Boilers / Central Heating	2,116	618	2,450	1,688	1,510
Insulation / Energy Efficiency	159	100	100	100	100
External Doors	28	129	108	63	88
PVCU Windows	373	1,002	1,350	912	915
Wall Structure	36	621	63	114	105
Wall Finishes	346	319	230	165	167
Wall Insulation	200	100	100	100	100
External Painting	0	0	0	0	0
Roof Structure	300	800	687	322	300
Roof Covering	1084	215	210	274	658
Chimneys	90	12	2	1	
Electrical / Wiring	183	91	181	317	120
Smoke Detectors	8	19	109	9	26
Sulphate Attacks	102	102	102	102	102
Major Voids	98	51	48	53	53

Description	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
HHSRS Contingency	150	100	100	100	100
Other Health and Safety Works (Balconies)	50	50	50	50	50
Other External Works	0	3	5	0	
Rising Damp / Penetrating Damp	0	0	0	0	
Professional Fees	556	556	556	556	556
External Professional Fees	19	27	27	27	27
Decent Homes Backlog	2,580	2,131	1,066	3,019	2,663
Planned Maintenance Contractor Overheads	1,038	778	827	798	776
Total Decent Homes	**9,899**	**8,964**	**9,494**	**9,181**	**8,943**
Other Spend on HRA Stock					
Garages	346	300	300	300	100
Asbestos Contingency	200	200	200	200	100
Disabled	864	878	878	878	878
TIS Schemes	21	21	21	21	21
Communal Areas Uplift	546	1046	546	546	546
Fire Prevention / Fire Safety Works	1060	300	300	300	300
Hard surfacing on HRA Land - Health and Safety Works	250	250	280	150	150
Hard surfacing on HRA Land - Recycling	147	0	0	0	0
Communal Areas Floor Coverings	170	200	0	0	0
Professional Fees	155	155	155	155	155
Lifts and Door Entry Systems	29	13	13	13	13
Fencing	100	100	100	100	100
Cemetery Lodge	49	0	0	0	0
Hanover / Princess Laundry	2	0	0	0	0
East Road Garages - Lighting Controls	4	0	0	0	0
TV Aerials	0	0	0	0	0
Planned Maintenance Contractor Overheads	442	338	270	256	226
Total Other Spend on HRA stock	**4,385**	**3,801**	**3,063**	**2,919**	**2,589**

Description	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
HRA New Build / Re-Development					
Roman Court	1,193	41	0	0	0
3 Year Affordable Housing Programme	6,899	7,918	0	0	0
3 Year Affordable Housing Programme (Notional Spend)	3,256	4,712	0	0	0
Clay Farm	0	10,247	3,416	0	0
New Build Decent Homes	0	0	0	140	143
Total HRA New Build	**11,348**	**22,918**	**3,416**	**140**	**143**
Cambridge Standard Works					
Cambridge Standard Works	372	200	200	200	200
Total Cambridge Standard Works	**372**	**200**	**200**	**200**	**200**
Sheltered Housing Capital Investment					
Emergency Alarm Service	15	0	0	0	0
Ditchburn Place	1,912	1,900	0	0	0
Brandon Court	0	0	0	0	0
Total Sheltered Housing Capital Investment	**1,927**	**1,900**	**0**	**0**	**0**
Other HRA Capital Spend					
Orchard Upgrade / Open Contractor / Mobile Working / ASB Database	191	0	0	0	0
Low Cost Home Ownership	300	300	300	300	300
RFR Buy Back	520	330	0	0	0
Commercial Property	232	30	30	30	30
Total Other HRA Capital Spend	**1,243**	**660**	**330**	**330**	**330**
Total HRA Capital Spend	**29,174**	**38,443**	**16,503**	**12,770**	**12,205**
Total Housing Capital Spend at Base Year Prices	**30,090**	**39,208**	**17,268**	**13,535**	**12,970**
Inflation Allowance and Stock Reduction Adjustment for Future Years	0	1,345	1,175	1,374	1,780
Total Inflated Housing Capital Spend	**30,090**	**40,553**	**18,443**	**14,909**	**14,750**

Description	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
Housing Capital Resources					
Right to Buy Receipts	(441)	(495)	(500)	(505)	(510)
Other Capital Receipts (Land and Dwellings)	(400)	0	0	0	0
Notional Land Receipts (New Build Schemes)	(3,256)	(4,712)	0	0	0
Major Repairs Reserve	(9,635)	(10,791)	(7,967)	(8,291)	(8,483)
Direct Revenue Financing of Capital	(10,247)	(9,023)	(8,001)	(5,048)	(5,035)
Other Capital Resources (Grants / Shared Ownership / R&R Funding)	(1,615)	(2,415)	(1,210)	(300)	(300)
Disabled Facilities Grant	(262)	(262)	(262)	(262)	(262)
Prudential Borrowing	0	(12,352)	0	0	0
Total Housing Capital Resources	**(25,856)**	**(40,050)**	**(17,940)**	**(14,406)**	**(14,590)**
Net (Surplus) / Deficit of Resources	4,234	503	503	503	160
Capital Balances b/f	**(8,277)**	**(4,043)**	**(3,540)**	**(3,037)**	**(2,534)**
Use of / (Contribution to) Balances in Year	4,234	503	503	503	160
Capital Balances c/f	**(4,043)**	**(3,540)**	**(3,037)**	**(2,534)**	**(2,374)**
Other Capital Balances (Opening Balance)					
Retained 1-4-1 Right to Buy Receipts	(2,072)				
Right to Buy Receipts for Debt Redemption	(997)				
Total Other Capital Balances	**(3,069)**				

Appendix G

HRA Earmarked & Specific Funds (£'000)

Repairs & Renewals

Housing Revenue Account	Opening Balance	Contributions	Expenditure to July	Current Balance
General Management	(1,088.5)	(141.8)	0.2	(1,230.1)
Special Services	(1,019.9)	(138.3)	8.8	(1,149.4)
Repairs and Maintenance	(40.9)	(12.4)	0.0	(53.3)
Totals	**(2,149.3)**	**(292.5)**	**9.0**	**(2,432.8)**

Major Repairs Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
MRR	(5,111.5)	0.0	0.0	(5,111.5)

Shared Ownership

	Opening Balance	Contributions	Expenditure to July	Current Balance
Shared Ownership	(300.0)	0.0	0.0	(300.0)

Tenants Survey

	Opening Balance	Contributions	Expenditure to July	Current Balance
Tenants Survey	(35.3)	(6.2)	0.0	(41.5)

Aerial – Roof Space Rental

	Opening Balance	Contributions	Expenditure to July	Current Balance
Aerial Income	(96.5)	(8.8)	3.2	(102.1)

Pension Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
Pension Reserve	(192.7)	(197.3)	0.0	(390.0)

Debt Set-Aside (Revenue)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(1,090.4)	0.0	0.0	(1,090.4)

Appendix H

Areas of Uncertainty

Housing Revenue Account – Revenue Uncertainties

Self-Financing for the HRA

Continued uncertainties include the potential for the debt settlement to be re-opened, a debt cap over which the HRA is not allowed to borrow and the implications of managing the cashflow for the HRA in light of the need to service the debt.

Right to Buy Sales

The number of sales has increased significantly since April 2012, and interest remains high. The implications of continued high levels of sales from a revenue perspective are significant, with the potential loss of rental income being the major factor.

Right to Buy Retention Agreement

The resource currently retained in respect of 1-4-1 receipts already exceeds the level that the authority is able to support in 70% match funding. At present, the investment required to fulfil the obligations under this agreement has not been incorporated into the HRA financial model, nor has the potential interest that will be payable (possibly by the General Fund) if the receipts are not utilised within the agreed 3-year period.

Independent Living Service – Ditchburn Place Extra Care

The current care and support contract with the County Council is due to expire in January 2014, with a request received to accept a 14 month extension. Although delivered alongside HRA services, the inextricable links to the provision of landlord services mean that any changes to the delivery of care and support services will impact HRA services also.

Independent Living Service – Sheltered and Temporary Housing

The current contract for Sheltered Housing support terminates in December 2013 and for Temporary Housing support in March 2014. It is anticipated that the County Council will either negotiate directly with providers for the continued provision of support or formally re-tender support services across these areas. The protracted timescales for these decisions causes additional uncertainty for both residents and staff.

HRA Commercial Property

Review of the ownership of some commercial property in the Council's portfolio is required to ensure that both rental income and maintenance liabilities are being correctly provided and accounted for.

HRA New Build

Although the 146 programme is progressing well, if any individual development scheme does not proceed, the initial outlay will need to be treated as revenue expenditure, but without the anticipated payback that the capital investment would have resulted in. Until schemes are approved, in contract, and have appropriate planning permission, there are still uncertainties over final costs and dwelling numbers, which could impact the HRA in terms of borrowing costs and anticipated rental streams.

Housing Revenue Account – Revenue Uncertainties

HRA Review of Area Offices

The decision about the future of the area housing offices will not be made until the implications of the delayed introduction of direct payment for housing benefit are clear. Progress with additional IT solutions and self-service options in the Customer Service Centre are also key in this decision. The last break clause in the lease for the south area office is January 2015, necessitating notice being given by July 2014, which is now unlikely. Otherwise, the lease ends in January 2020.

National Rent Policy

Current government indications are that rent policy will see a move from April 2015/16 to rent increases limited to CPI plus 1%, as opposed to RPI plus 0.5%, with the cessation of any further moves towards target rent. This decision will be subject to national consultation, so although financial modelling has been undertaken on the assumption that the proposal goes ahead, this is not currently guaranteed, however Government have prepared spending plans on the assumption that it does.

Cyclical Revenue Maintenance

Arrangements for the provision of cyclical maintenance services, (ie; door entry, lifts, electrical testing, fire risk assessments, warden call systems) are being incorporated as part of the planned maintenance procurement, with a view to new contracts being in place by April 2014. It is difficult to predict the cost base for the revenue elements of these contracts, when considered as part of a larger contract. The contract for gas inspections and servicing, previously procured jointly with South Cambridgeshire District Council, is also due for re-tender or extension from June 2014.

Welfare Reforms

The negative impact that the introduction of Universal Credit may have on the level of rent arrears and bad debts within the HRA is currently unquantifiable, although indications from the earlier pilot authorities are that it will be significant.

Eastfield Site

The potential future income stream for the Eastfield site is subject to discussion with Hundred Houses.

Housing Revenue Account - Capital Uncertainties

Ditchburn Place

Funding has been ear-marked for the re-development of the extra care housing at Ditchburn Place. The scheme has been considered using indicative costs, but until tendered, the finalised costs will not be available, The decision to phase the works also poses additional uncertainty in terms of both the costs and the length of the build.

Expansion of Investment Standard to include Communal Areas

Incorporation of communal areas into our investment standard, to include lifts and common parts in flatted accommodation, requires both up front investment to survey and ongoing investment to meet and maintain any standards set. The Housing Capital Investment Plan includes an uplift of £75 per property per year to meet the investment needs in un-surveyed communal areas. Until surveys are complete it is unclear whether this allocation will be required in totality.

Sulphate Attack

Sulphate attack was identified a number of years ago in a few council dwellings, resulting in the potential need to invest £1.87m to eradicate the problem. Following a risk assessment, the approach taken has been to address the defect when the property is void. Currently 12 of the 110 properties potentially affected have been rectified. Funding of approximately £1.6m is included in the Housing Capital Programme over the next 15 years to continue to fund this risk-based approach. There is the potential for similar sulphate attacks in the structures of other council dwellings constructed at a similar time, resulting in the need for significant additional investment.

Disabled Facilities Grants and Private Sector Housing Grants and Loans

Council investment in both DFG's and Private Sector Housing Grants and Loans is dependent upon existing capital balances or capital receipts in year. Once existing capital balances are exhausted, future funding is dependent upon 25% of the first 10 to 17 right to buy sale receipts per annum, as assumed to be available for general use in the self-financing settlement. This puts at significant risk the desired level of future investment in this area.

Right to Buy Sales

Interest in right to buy remains high following changes to the scheme in April 2012. Under the terms of the agreement signed with CLG, the authority is committed to deliver completed replacement dwellings from right to buy receipts within 3 years of the date of the retained 1-4-1 receipt, with this funding meeting no more than 30% of the cost of the dwelling. There is doubt over the level of top up funding that can be afforded by the authority, particularly in light of the borrowing cap.

Asbestos Removal

Potential to change strategy for asbestos removal, to ensure that blocks / streets are tackled as projects (as in Edgecombe) as opposed to in isolation whilst dwellings are void. This approach may bring forward the need for resources previously anticipated to be spent much later in the programme and also incur the additional costs of decant, but would accelerate the programme and reduce the additional revenue costs of repairs in properties with asbestos.

Energy Efficiency

Legislative requirements / local desire to increase the energy efficiency of the housing stock could result in significant increased investment, with little or no financial return to the HRA.