Housing Scrutiny Committee

Housing Revenue Account Medium Term Financial Strategy (HRA Business Plan Update)

September 2016

2016/17 to 2045/46

Cambridge City Council

Contents

Appendices

Section 1
Introduction and Local Context

Foreword by the Executive Councillor

The Medium-Term Financial Strategy examines and restates the HRA budget for the current year and updates our financial assumptions and projections for the following four years. It seeks to plot a path through what has been, and continues to be, a period of significant change in national legislation for stock holding councils, in order to minimise and mitigate the impact on our tenants and to continue to invest in building new council homes.

The importance of councils as providers of secure, high quality, low cost rental homes for those for whom home ownership or private sector rent may never be an option is clear, yet the constraints on councils as providers have never been greater. Grant for new affordable rented homes has all but disappeared and many providers across the wider sector are diversifying into low cost home ownership with the changing definition of 'affordable'.

It is crucial that councils continue to make the case to government that the provision of low cost social rented homes is key both to meeting ambitious targets for the supply of new housing and to tackling the housing affordability crisis which is so clear, not just in Cambridge but across the country. Over the past few months this has been at the core of our discussions with the Treasury over the proposed Devolution Deal. Securing £70,000,000 for the HRA to be used with our retained Right to Buy receipts will enable a significant replacement programme of homes lost through Right to Buy and the increased rental receipts will enable further future investment in new homes.

Much work remains to be done but the proposed Devolution Deal offer can provide some hope in the too often bleak landscape for those on our housing needs register.

Councillor Kevin Price.

Executive Councillor for Housing

Background and Executive Summary

The Housing Revenue Account (HRA) Medium Term Financial Strategy is to be read in conjunction with the original HRA 30-Year Business Plan approved in February 2012, which set the scene for the current financial environment and the HRA Budget Setting Report of February 2016.

This report provides opportunity to review assumptions and consider any material changes, which may need the authority to change financial strategy, policy or to take alternative courses of action, to ensure a financially viable Housing Revenue Account in future years. Both revenue and capital investment is considered in this report, with the impact of any proposed changes on the HRA Business Plan clearly identified. A review of the strategic risks facing the HRA is presented at Appendix A.

The HRA Medium Term Financial Strategy re-states the budget for the current year (2016/17), highlighting only significant or exceptional in-year changes for approval, reviews and updates financial assumptions and presents updated projections for the following 4 years from 2017/18 to 2020/21, in the context of the longer-term financial position.

Following a review of the assumptions made previously, it is still clear that the HRA faces significant financial pressure, and although some of the changes made impact the financial forecasts positively, there is still the need to identify significant savings and efficiencies in the HRA, or to increase income generated, in order to maintain a sustainable HRA for in the longer term. There are still a number of areas of uncertainty, and financial forecasts will be reviewed again as further information is made available to the authority.

Timetable

Committee dates in the financial planning and budget preparation timetable are shown below:

Date	Task
2016	
22 September	Executive Councillor for Housing considers HRA Medium Term Financial Strategy and incorporates Housing Scrutiny Committee views in recommendations to Council
20 October	Council considers HRA Medium Term Financial Strategy
2017	
18 January	Executive Councillor for Housing considers HRA Budget Setting Report, considers any alternative budget proposals, approves rent levels and revenue budgets, following consideration of Housing Scrutiny Committee views, making final capital related recommendations to Council
23 February	Council approves HRA Budget Setting Report

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 1/4/2016**	**Estimated Stock Numbers as at 1/4/2017**
General Housing	6,414	6,471
Sheltered Housing	510	510
Supported Housing	22	22
Temporary Housing (Individual Units)	47	45
Temporary Housing (HMO's / EA)	30	30
Miscellaneous Leased Dwellings	17	17
Shared Ownership Dwellings	78	88
Total Dwellings	**7,118**	**7,183**
Property Type (Excluding Shared Ownership)	**Actual Stock Numbers as at 1/4/2016**	**Estimated Stock Numbers as at 1/4/2017**
Bedsits	107	107
1 Bed	1,687	1,698
2 Bed	2,376	2,423
3 Bed	2,253	2,248
4 / 4+ Bed	107	109
Sheltered Housing	510	510
Total Dwellings	**7,040**	**7,095**

Leasehold Stock

At 1st April 2016, the Council retained the freehold and managed the leases for 1,145 leasehold flats.

Housing Stock Changes

The table below compares reductions in the general housing stock in the last 10 years through right to buy sales, other sales, re-development and conversion, with increases in the number due to new build dwellings and acquisitions.

Year	Opening Stock	RTB's	Other Disposals / Demolitions	Conversions / Other Changes	Acquisitions / New Builds	Closing Stock
2015/16	7,016	(42)	(4)	5	65	7,040
2014/15	7,164	(51)	(109)	(7)	19	7,016
2013/14	7,235	(60)	(45)	1	33	7,164
2012/13	7,280	(41)	0	(6)	2	7,235
2011/12	7,290	(12)	0	0	2	7,280
2010/11	7,364	(17)	(62)	0	5	7,290
2009/10	7,387	(13)	(2)	(8)	0	7,364
2008/09	7,438	(6)	(44)	(1)	0	7,387
2007/08	7,524	(43)	(42)	(1)	0	7,438
2006/07	7,600	(72)	(2)	(2)	0	7,524
Total		(357)	(310)	(19)	126	

Section 3
The National Policy Context and External Factors

External Factors

In reviewing financial assumptions as a pre-cursor to strategic decision making, it is necessary to consider the assumptions made in respect of external factors, outside of the control of the organisation and to update financial projections in light of any changes or trends in these areas.

A table detailing all of the revised business planning assumptions is included at Appendix B.

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 18 months, the average rate of growth has remained low, with rates of below 1% spanning the entire period.

In light of the recent referendum, resulting decision for the UK to leave the European Union and subsequent reduction in the Bank of England Base Rate, it is difficult to accurately predict in which direction this indices will move in the short or medium term.

With this in mind, forecasts for the rate of base inflation have been amended as part of the Medium Term Financial Review to reflect the projections currently being made by the Office for Budgetary Responsibility (OBR), with estimates that prices will increase by 1.9% for 2017/18, increasing to 2.4% from 2018/19 ongoing. This assumption will be revisited again as part of the 2017/18 Budget Setting Report.

Expenditure in respect of building maintenance is inflated in the financial forecasts using the RICS (Royal Institution of Chartered Surveyors) Building Cost Information Service (BCIS) all in tender price index. This index is historically volatile, with huge peaks and troughs in the rates between years, depending upon the level of activity and availability of both labour and materials for the industry.

Again, a decision to leave the European Union is anticipated to have a direct impact in this industry, with current uncertainty about the price that can be secured for building materials, whether financial institutions will continue to lend on the same terms for building projects in the UK, and whether the labour market will be directly impacted.

According BCIS All in Tender Price Index, forecasts for the next 5 years are for growth of 3.7% for the next 3 years, followed by an increase of 4.6% and 6.4% in the last 2 years. These revised assumptions have been incorporated into the financial forecasts, using an average rate of 4.5% form year 6 onwards.

Interest Rates

The Council lends externally, any cash balances held, adopting a mix of investments. If the balances held, whether revenue or capital in nature, relate to the Housing Revenue Account, the interest earned by the authority is credited to the Housing Revenue Account. Although a different mix of investments has been introduced recently, the level of return remains relatively low. Revised interest rate assumptions are included in Appendix B.

In respect of HRA borrowing, the self-financing loan portfolio with the Public Works Loans Board remains, with rates of between 3.46% and 3.53%. Any additional borrowing must still be within the level of the current HRA borrowing cap, resulting in maximum additional borrowing in the region of £16m. There is no indication at a national level that the borrowing cap will be increased in the immediate future.

Although any additional borrowing in the HRA could potentially be met from the General Fund, subject to the availability of resource, for the purpose of financial planning, the assumption that the HRA will borrow externally has been retained.

The external borrowing rate previously assumed for the HRA was 4%, but having reviewed the rates currently available from the PWLB for maturity loans with a 30 year duration, and taken into consideration market projections, it is proposed to reduce this assumption to 2.4%, rising to 2.5% in 2017/18 and then 2.7% from 2018/19 onwards, as part of the HRA Medium Term Financial Strategy, recognising that a certainty rate providing rates at 20 basis points below the standard rate is still available at present.

Although the reduction in the rates available currently mean that the rates are now lower than those secured for the self-financing settlement in 2012, any attempt to re-finance the loans now to take advantage of the lower rates would incur significant early redemption penalties. Any interest saving would be far outweighed by the penalty, which would need to be paid at the point of re-financing.

Right to Buy Sales

In 2015/16, 141 right to buy applications were received and recorded, compared with 103 and 114 in the two previous years respectively. This demonstrates an increase in activity, where previously a marginal decline had been seen. It is possible that renewed interest in the scheme may have been brought about by the anticipated introduction of 'Pay to Stay', the requirement for those on higher income to pay up to market rent for living in their council home. In 2015/16, 42 of the applications proceeded to completion of the sale of the property, compared with 51 in 2014/15. In the first 3 months of 2016/17, 21 sales have completed, supporting the view that interest has again increased.

It is impossible to accurately predict future sales, although recently renewed interest in the lead up to the introduction of 'Pay to Stay' indicates that an increase in the assumed level of sales may be appropriate for the medium term. With this in mind, it is considered prudent to marginally increase the assumption of sales, with an increase to 55 sales in 2016/17, with 50 sales in 2017/18, then reducing by 5 sales per annum, until 25 sales per annum are assumed from 2022/23 onwards.

Right to Buy Receipts

Still subject to an agreement with CLG, allowing the retention of an agreed proportion of right to buy receipts, subject to a set of specific conditions, the authority now holds a significant sum for re-investment. Receipts must be spent, within 3 years, 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, and not on dwellings receiving any other form of public subsidy, ie; Homes and Communities Agency grant.

Whilst held, the capital receipts can be invested by the authority to earn interest in the short-term, but if not spent appropriately within the 3 year time frame, have to be paid over to central government, with 'penalty' interest payable at 4% above the base rate, far exceeding the level of interest that will have been earned in the interim.

There is scope however, subject to progression of the latest devolution offer following public consultation, for money to be made available through this route to be matched with right to buy receipts to deliver new homes in the city.

Appendix C summarises the latest position in respect of receipts held and appropriately re-invested, highlighting that although a deadline has not yet been breached, the timing of investment through our capital programme is absolutely crucial if we are to avoid payment of any penalties.

It may still be necessary to consider some strategic acquisitions in the short-term in order to meet the deadlines, but a decision in this regard, will need to take account of the subsequent impact on our ability to deliver existing new build schemes. The option to pass retained receipts to registered providers still remains, with the registered provider delivering affordable housing to which we would receive nomination rights. The same time constraints apply in this instance, as does the need for the 70% top up funding.

At the end of each quarter, the Head of Finance, as Section 151 Officer, in consultation with the Strategic Director, makes a decision as to whether right to buy receipts are retained or paid directly over to central government. The Executive Councillor for Housing will be informed if the outcome of this decision making process were to be a decision to pay receipts directly back to Central Government. The decision takes account of the ability to identify the 70% top up funding required, and failing this, the potential for the receipt to be passed to a registered provider, with both options maximising the delivery of new homes in the locality. Payment of the sums to central government is only considered if there is a clear risk that the resource cannot be utilised appropriately within the required timeframes, thus mitigating any impact of the need to pay receipts over to central government at a later stage, alongside the interest penalty incurred.

National Housing Policy

National Rent Setting Policy

There is now no discretion at a local level in terms of setting rents. The Welfare Reform and Work Bill included legislation that imposes the requirement on local authorities and registered providers to reduce rents by 1% each year for four years, beginning in April 2016.

For the first year, an exclusion to the legislation was granted in respect of supported housing (sheltered, supported and temporary housing in the City Council's case), which allowed rents in these dwellings to be increased as before, pending the outcome of a review into the rent levels for this type of accommodation.

Cambridge City Council decided, having carefully considered the impact on residents, not to apply the exemption for supported housing in April 2016, as the national announcement confirming the exemption was very late in the process, and after decisions had already been taken to recognise the requirement to reduce rents by 1%.

The outcome of the review of rent levels for supported housing in the longer term is still awaited.

Market Rents for Higher Income Households (Pay to Stay)

The Housing and Planning Act 2016 incorporated a requirement for local authority social landlords to charge up to market rent levels for households on higher incomes, and for HMRC to be able to share information with local authorities to facilitate this.

The policy change will be implemented from April 2017, although a number of bodies are lobbying Government for a delay in this, and will require households earning over £31,000 per annum in taxable income to pay a higher level of rent than the social housing rent restructuring formula dictates, with increased rents introduced on a tapering basis. For every £1 over the threshold which a household earns, the rent payable will increase by 15p. The definition of household will include tenant, joint tenant, spouse, partner or civil partner. Earnings from non-dependent children living in the property, but not included on the tenancy will be disregarded, and any household in receipt of Housing Benefit or Universal Credit will be automatically excluded from the need to pay higher rents.

Local authorities will be able to retain 'reasonable' administrative costs, and for the **first** year of implementation, the sum payable to Central Government will be based upon actual receipts received, indicating that this might not always be the case.

Formal regulations are expected to be published in advance of the need to set rents for 2017/18, with a draft set anticipated by September at the earliest, after which we will be in a position to communicate with individual residents.

Mandatory Disposal of Higher Value Housing Stock

The Housing and Planning Act 2016 also introduced the ability for Central Government to impose a financial levy on stock owning authorities, which equates to the assumption that the authority disposes of a proportion of its higher value housing stock when it falls vacant.

The levy will vary for each financial year, with the value arrived at on a formulaic basis, after a period of consultation with local authorities. Although the formal regulations are still awaited at present, it is anticipated that each authority will have some discretion over which assets it disposes of, in order to meet the levy. Payments are likely to be due periodically throughout each financial year.

An officer project team is currently reviewing the asset holding for the HRA, allowing consideration of a number of options for the disposal criteria which will need to be set. The team are also exploring the options available to the authority in terms of the processes that will need to be introduced and the new workload that will need to be met, utilising either a fully in-house model, or procuring a proportion of the services required externally.

In the absence of any regulations, the HRA Medium Term Financial Strategy has been constructed maintaining the assumption that the compulsion to sell will require the equivalent of approximately 1.8% of the housing stock each year to be disposed of, representative of just under 130 properties per annum at the outset.

Welfare Reforms

Universal Credit

Universal Credit was introduced in Cambridge on the 29th February 2016 and is currently only applicable to single, working age customers who would otherwise have been entitled to make a claim for Jobseekers Allowance. Universal credit does include housing costs for this group and generally this is paid directly to the customer. Claims must be made online, as this is more efficient than paper based alternatives, although the full digital service is not yet available in this area. This means that any follow up to the initial claim is currently paper based. The full digital service will not be available in Cambridge until the rollout of Universal Credit to all claim types. As yet, no date is available but it is not likely to be until at least 2017. The numbers of claims since the end of February have been 171, slightly lower than the DWP's (Department for Work and Pension's) initial estimate of

250. Most of these are for people who do not have a rental liability such as non-dependants and only 7 customers have needed to apply for Council Tax Support and only one of these is a City Homes tenant.

As part of the Delivery Partnership Agreement, requests for Personal Budgeting Support are being accommodated by Cambridge CAB (Citizens Advice Bureau). There have been low numbers of these too and many have not attended the appointment at CAB. CAB, DWP and the City Council are working towards trying to resolve this.

Benefit Cap

Preparations for the introduction of the reduced Benefit Cap are progressing, with the early identification of potential customers being approximately 150, of which approximately 80 are City Homes tenants. DWP have sent letters to all of these customers and Revenues and Benefits will also be contacting them to offer advice and support via the Advice Hub and CAB. The City Council is also working with Cambridge Housing Society to look at ways to help those affected into work.

Removal of the Spare Room Subsidy

Numbers of customers affected by the removal of the spare room subsidy continue to reduce slowly and currently there are 367 City Homes tenants affected by the reform. With 315 impacted by a reduction of 14% and 52 by 25%.

Local Housing Allowance Restriction

Social sector rents used in the calculation of Housing Benefit and the Housing Costs element of Universal Credit will be restricted to the prevailing Local Housing Allowance rates from April 2018 for all new tenancies entered into from April 2016 (unless the tenancy is for a Specified Accommodation, then the tenancy start date is April 2017). There is heavy lobbying by many sectors for exemptions from this reform for Specified Accommodation but there are no details from Government on this at this time.

For claimants under the age of 35, a restriction applies which limits the Housing Benefit payable to the shared room rate, and not the one bedroom rate, as would previously have been applicable. The lower rate restriction was previously applied to those under 25, but now impacts a larger number of residents.

Support for Vulnerable People

Cambridge City Council is still in contract with the County Council for the delivery of tenure neutral support services to older people across the city as a whole, with a term of up to 5 years from 30th April 2014, assuming an extension is agreed from April 2017. The contract sum is £180,000 per annum.

The City Council no longer receives any funding from the County Council for the provision of alarms in sheltered housing, alarms in general needs housing or for support in temporary housing. Across our temporary housing stock enhanced housing management services are still being provided by our own staff team to ensure that rent arrears are minimised and residents are moved on to more permanent accommodation as soon as it becomes available. There is no longer any dedicated support provision in this area.

The authority is also contracted to deliver support services in extra care housing, operating under temporary extensions arrangements whilst the County Council decide upon the most appropriate delivery vehicle for the future.

Section 4
Revenue Resources – Rent and Other Income

Rent Arrears and Bad Debt Provision

Rent collection performance locally remains consistently good, with over 99% of the value of rent due, collected in 2015/16.

The year-end position in respect of rent debt is summarised in the table below:

Financial Year End	Value of Year End Arrears in Accounts (Current Tenants)	Current Tenant Arrears as a Percentage of Gross Debit Raised in the Year	Value of Year End Arrears in Accounts (Former Tenants)
31/3/2012	£655,177	1.98%	£863,677
31/3/2013	£661,246	1.86%	£862,042
31/3/2014	£619,986	1.68%	£967,755
31/3/2015	£637,735	1.67%	£763,491
31/3/2016	£598,820	1.51%	£735,539

Performance in the collection of current tenant debt was improved in 2015/16, despite the ongoing impact for residents of both the social sector size criteria reduction in housing benefit and the benefit cap. Officers continue to work proactively with all tenants, but particularly those already, or soon to be, affected by the benefit changes, in an attempt to mitigate any negative financial impact on the Housing Revenue Account. Dedicated staffing resource continues to be directed at supporting those facing financial difficulties, in an attempt to ensure that residents react appropriately to the changes and get all of the financial assistance to which they are entitled.

The collection of former tenant arrears continues to prove challenging, although the focussed effort during 2014/15 to reduce the level of arrears was maintained and improved upon marginally during

2015/16. There is still work to do to ensure that former tenant debt held is that which is realistically collectable, and to facilitate write off of any which isn't. Provision is made in the Housing Revenue Account to write off just under 93% of former tenant debt, but a decision to do this is not taken until all avenues for collection have been exhausted.

Although, over the longer term, the position in respect of rent arrears is anticipated to worsen following the introduction of Universal Credit, the full impact is not expected to be realised immediately, but instead over a period, as tenants are moved to direct payment.

Taking the information above into consideration, it is recommended that the current contribution level of 1.12% that was allowed for assuming the need to collect 100% of rent from April 2016, is reduced in the short-term and instead phased back up to this higher level over a 3 year period. Assumptions of 0.56% in 2016/17, 0.84% in 2017/18 and 1.12% by 2018/19 have been incorporated as part of this review. The level of provision for the longer term will be reviewed once the authority has some experience of payment performance locally.

At 31 March 2016, the total provision for bad debt stood at £1,181,406, representing 89% of the total debt outstanding.

Void Levels

The value of rent not collected as a direct result of void dwellings in 2015/16 was £389,281, representing a void loss of 1.05%, compared with £320,237 in 2014/15, representing a void loss of 0.88%.

The marginal increase in void loss in 2015/16 was due to a combination of the decision to begin holding vacant units at Ditchburn Place pending the refurbishment of the scheme, coupled with 'management or major voids' held pending decision to dispose and some new build units which were unoccupied for longer than anticipated due to some problems identified with the quality of the homes post hand over.

Void performance statistics exclude 'management of major' voids, ensuring that the authority has a proper picture of those dwellings vacant, but anticipated to be available for re-let once any standard void works have been completed.

On an ongoing basis, an assumption of 1% voids in general housing is still considered prudent, recognising the release of a considerable amount of new build affordable housing in the city, and the desire to carry out the refurbishment of Ditchburn Place in 3 phases.

Rent Setting

Although in the background, the national rent setting policy for calculating rents in social housing, 'rent restructuring' remains, as identified in Section 3, National Housing Policy, there has been significant change in national rent policy which impacts this.

Rents levels are required legislatively to be reduced by 1% per annum for 4 years, with the first year of this applied from April 2016. Compared to the previous business plan assumption of an increase of 4%, this change has already significantly impacted the revenue stream for the HRA.

The potential to exempt supported housing from the rent cut, and instead to apply an increase of CPI plus 1% was not exploited locally. The level of rent chargeable in supported housing in future years will be dependent upon the outcome of a national review of supported housing, and the authority will need to decide whether to apply any future exemptions if they exist, subject to their implementation being discretionary.

The authority identified savings as part of the 2016/17 budget, to offset the financial impact of year 1 of the rent loss, but there are a further 3 years reductions anticipated.

Rent Restructuring

Rent restructuring, designed to ensure consistency in rent levels for all social housing tenants irrespective of landlord by introducing a formulaic target rent for each property, is still the prescribed method of calculation for social housing rents.

There is still a significant gap between the target rents for many properties, and the actual level of rent being charged to the existing residents. The authority now only has the ability to close this gap when a property becomes void, which the authority has been doing fully since April 2015.

The average target 'rent restructured' rent at the start of 2016/17 across the general housing stock was £104.83, with the average actual rent charged being £100.26, both recorded on a 52 week basis. The average actual rent was therefore representative of 95.6% of the average target rent, with only 16.7% of this general housing stock being charged at target rent levels.

There were 98 new build properties charged at the higher ‘affordable rent’ levels, equivalent to the Local Housing Allowance at April 2016.

The gap between actual and target rent levels now equates to an annual loss of income of approximately £1,650,000 across the HRA, compared with the income assumption in the HRA Self-Financing Debt Settlement, where convergence was anticipated by now. Closing this gap may never be realised in many cases, with a significant proportion of properties likely to need to be sold when they fall vacant, to meet the higher value void levy.

Pay to Stay

The requirement for households with annual incomes in excess of £31,000 to be required to pay up to market rent levels will be introduced from April 2017, as described in Section 3.

The increased income collected by local authorities as a result of this change will be payable to central government, with the expectation that a contribution towards the cost of administering the scheme will be retainable locally.

Until work has been undertaken to define the process through which income information will be shared by HMRC and the basis upon which rents will be charged to residents, combined with IT suppliers undertaking development work to provide for as much of the process to be managed electronically as possible, it is impossible to quantify the additional resource that will be required to fulfil our obligations.

Communication with residents will be undertaken in the lead in to April 2017, as soon as the authority is clear about the process being adopted.

Resource of £120,000 was included in the HRA from 2016/17 to meet the anticipated increased costs of collecting rent from 100% of tenants as a result of direct payment. As the introduction of this is being phased, it is proposed to utilise this resource in 2016/17 to meet the up-front costs of implementing ‘Pay to Stay’, which is also an increased cost of rent collection, just in a different form.

Once the regulations supporting the changes in national rent policy are available, consideration will be given to any required changes in the Rent Setting Policy at a local level as part of the 2017/18 HRA budget setting process, either as part of the HRA Budget Setting Report or as the subject of a specific Housing Scrutiny Committee report at the same time. Rent levels will continue to be set in January of each year, with the Executive Councillor for Housing having the authority to make this decision, following consideration and debate by Housing Scrutiny Committee.

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. HRA reserves are currently at levels above the target due to the need to identify resource to top up the retained right to buy receipts which we currently hold, thus allowing them to be spent appropriately.

The impact on HRA reserves for 2015/16, and 2016/17 to date is shown in the table below:

Budgeted or Actual Use of / (Contribution to) HRA Reserves	2015/16 £'000	2016/17 £'000
Opening General HRA Reserves	**(14,865)**	**(9,790)**
Changes in HRA Reserves		
Original Budget (Approved in February)	990	1,737
Carry Forwards (Approved in June)	9,272	191
MTFS Mid-Year Review (Approved in October)	192	(190)
Budget Setting Report Revised Budget (February)	(19)	-
Estimated Closing General HRA Reserves	**(4,430)**	**(8,052)**
Actual Outturn for the Year (Reported in June)	5,497	-
Contribution from Ear-Marked Reserves	(422)	-
Actual Closing General HRA Reserves	**(9,790)**	**-**

The original budget for 2016/17 approved a net use of general reserves of £1,737,420, recognising the desire to hold target HRA general reserves of £3,000,000 over the longer term. The budget incorporated a revenue contribution of £11,238,900 to fund capital expenditure.

The financial projections incorporated into this report include the effects of changes in capital scheme approvals and resources, approved carry forwards from 2015/16 and incorporation of changes in anticipated interest due for 2016/17 based upon revised cash balance assumptions as part of this HRA Medium Term Financial Strategy.

The final general HRA reserves position reported at 31 March 2016 was £9,790,590. This included a return to general HRA reserves of £422,307 previously ear-marked for shared ownership repurchases and specific re-investment of monies generated from roof space rental.

The revised projection of the use of general reserves in the current year (2016/17) now indicates that there is expected to be a net use of reserves of £1,738,410, which would leave a balance of £8,052,180 at 31st March 2017.

There is now a proposed use of £11,128,900 of direct revenue financing of capital expenditure in 2016/17 and £6,997,470 in 2017/18. This is possible due to a combination of the current level of HRA reserves, built up from underspending in prior years, coupled with a significant reduction in the level of depreciation assumed to be charged to the HRA from 2017/18 onwards.

Earmarked Funds

In addition to General Reserves, the Housing Revenue Account still maintains a small 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 I for detail of existing balances held.

Section 5
Detailed Review of Revenue Budgets

Housing Transformation Programme

Following a detailed financial review of the HRA and Housing General Fund Services as part of the Fundamental Review of Housing, a first tranche of savings were identified from 2016/17 onwards.

Many of the approved savings for 2016/17 have been delivered as anticipated, with service restructures completed as planned and the south area office vacated as anticipated by the end of June 2016. Delays in finding a suitable sub-tenant for the area office may however result in the saving in this area not being realised from August 2016 as anticipated.

During 2016/17 and 2017/18, a Housing Transformation Programme has been introduced, led by the Strategic Advisor for Housing, which seeks to ensure that the authority is best placed to respond to the changes in the economy and in national housing policy which the HRA faces,
Identifying how services will need to transform to deliver within the financial constraints imposed, whilst still meeting the needs of the most vulnerable.

The work streams being considered as part of the programme include:

- Responsive, Cyclical and Void Repairs
- Housing Management
- Anti-Social Behaviour
- Specialist Housing Services
- Stores
- Garages
- Disabled Adaptations
- Section 20 Works and Cost Recovery
- Corporate Costs and Recharges
- Self-Financing Debt
- Disposal of Higher Value Voids Levy
- Pay to Stay

The initial findings are presented to Housing Scrutiny Committee as part of this committee cycle, with detailed budget proposals to be incorporated as part of the 2017/18 budget process and included in the 2017/18 HRA Budget Setting Report.

2016/17 Mid-Year Budget Changes

As part of the HRA Medium Term Financial strategy, there is no formal mid-year review of service delivery or operational budgets, but there is an opportunity to review the HRA position for the current year from a strategic perspective, allowing incorporation of any major in-year changes in income or financing arrangements as a direct result of changes in the capital programme.

For 2016/17, there is the need to recognise and approve the following changes in the HRA mid-year:

- Revised rental income assumptions as a result of delays in the delivery of the new build programme, increased right to buys, and the assumption that voids may be held in the latter stages of the year pending decisions about the sale of properties to meet the higher value voids levy once known.
- A reduction in the 2016/17 contribution to the bad debt provision, recognising the phased introduction of direct payments as part of welfare benefit changes.
- An increase in the revenue costs associated with the sale of properties under the right to buy that can be capitalised in 2016/17 due to a higher level of sales than anticipated.
- A reduction in the amount of interest that the HRA will expect to pay on notional internal borrowing in 2016/17 due to a reduction in the assumed rate of interest payable.
- An increase in the anticipated interest received on cash balances for 2016/17, as although the interest rate is predicted to reduce, the level of balances held is higher due to underspending in 2015/16, re-phased capital expenditure and increased sales receipts.
- Inclusion of the HRA share (£25,000) of the Employer's Apprenticeship Scheme Levy, to be effective from April 2017. The Council's levy will be based upon 0.5% of the total pay bill.
- Re-allocation of £120,000 rent collection budget to meet the up-front costs of Pay to Stay.

These changes are detailed in Appendix D, and are incorporated into the HRA Summary Forecast at Appendix G.

Section 6
Capital - Existing Stock

Stock Condition / Decent Homes

The authority holds validated stock condition data for its housing stock, which is updated on a continual basis.

The housing service reported achievement of the decent homes standard in the housing stock as at 31 March 2016 at 92%, compared with 97.9% achieving the desired standard at 31 March 2015. There were 553 properties that were considered to be non-decent (in addition to refusals), with another 379 anticipated to become non-decent during 2016/17.

Stock Investment

As part of the Fundamental Review of the Housing Service in 2015/16, the 30-year investment programme was fully reviewed, taking into consideration work completed to date, the stock condition data held for all dwellings and the prices that the authority was contractually committed to for works delivered by its planned maintenance contractors.

The table below confirms the assumptions currently made in respect of decent homes component lives:

Decent Homes Asset Life Table – With Local Asset Lives Assumed

Element	Option	Original Life Assumed	Current Life Assumed
Balcony		80	80
Balustrade/railing	Metal, timber, concrete, glass, melamine, other	80	80
Bathroom		**30**	**40**
Boiler		**8**	**12**

Element	Option	Original Life Assumed	Current Life Assumed
Canopy	Timber, concrete, GRP, metal	40	40
Chimney	Pointing & Render	50	50
Communal door	GRP, timber, PVCu, composite, steel, mixed	40	40
Communal lift		20	20
Door entry system		15	15
Drainage		25	25
Electrics		30	30
Enclosure doors	GRP, timber, PVCu, composite, steel, mixed	40	40
Front/Back door	GRP, timber, PVCu, composite, steel	40	40
Garage		80	80
Garage door	Timber, composite, steel other	30	30
Garage rainwater goods		15	15
Garage roof	Metal, asbestos, concrete, felt, other	30	30
Glazed areas	PVCu, timber, metal, aluminium, SDG	40	40
Heating	Gas warm air, electric warm air, electric storage heaters	30	30
Heating	Other, solid fuel, electric ceiling heater	30	30
Heating	Gas boilers & radiators	40	40
Kitchen	**Small, medium or large**	**20**	**25**
Roof covering	Flat	30	30
Roof covering	**Pitched**	**50**	**60**
Roof structure		50	50
Shed door	GRP, Timber, PVCu, composite, steel, mixed, other	30	30
Shed roof	Metal, asbestos, corrugated sheets, felt, other	30	30
Shed windows	Timber, PVCu, metal, other	30	30
Smoke detector		15	15
Wall Finish	Brick, render, cladded, tile hung, metal sheet	60	60
Wall structure	Brick, block, timber, concrete, combination, other	80	80
Water heating	From boiler, on/off peak immersion, gas/electric instantaneous, communal	15	15
Window	**PVCu**	**25**	**40**
Window	Timber, metal, aluminium, part PVCu	40	40

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

- Expenditure as approved in the HRA Budget Setting Report in February 2016.
- Re-phasing of expenditure anticipated to take place in 2015/16 into 2016/17 and beyond, as approved in June / July 2016.
- Re-allocation of resource between both expenditure elements and years, of the decent homes and other investment in the housing stock programmes, to ensure appropriate delivery.
- Inclusion of an additional annual allocation of £60,000, recognising the incidence of failure being experienced in external doors prior to their timetable replacement in the programme. This will be reviewed again as part of the wider review of the Decent Homes Programme from 2017/18.
- Removal of the residual allocation for the inflationary element of the capital programme for 2016/17, and reduction in future years, where resource has been identified as not being required in year.
- Inclusion of £130,000 of funding to implement the capital aspects of the Stores Review findings, which as part of the Housing Transformation Programme, recommend retaining a reconfigured, restructured service in-house, but sited at Cowley Road, with reduced stock lines, improved IT capabilities, and improved processes and storage systems. The revenue aspects of the change (£40,750) will be met from the existing 2016/17 transformation fund budget.
- Capital financing has been updated in respect of revised assumptions in right to buy and other capital receipts, grants, revenue funding of capital expenditure and borrowing requirements.

The current HRA Business Plan and resulting Housing Capital Investment Plan are constructed on the basis that a partial investment standard is retained in the housing stock, reduced as part of the Fundamental Review of the Housing Service, but recognising that future consideration needs to be given to the impact of further reducing investment levels over the longer-term and returning to the basic decent homes standard, to provide flexibility to respond to the increased financial pressure that the HRA faces.

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

Asset Management

Consideration continues to be given to the strategic acquisition or disposal of assets, in line with the current HRA Acquisition and Disposal Policy. The policy will have be reviewed and significantly amended once the regulations surrounding the higher value voids levy are available. This legislation will require a completely new approach to the asset management of the housing stock.

Receipts from individual asset disposals are currently recognised in the HRA's reserves only at the point of receipt and after all relevant costs have been provided for, but this will need to change once the new regulations are in place, as it will be necessary to forecast the number of sales which will take place in each period, in order to plan effectively to meet the levy set.

The following HRA assets have been, or are being, considered for market acquisition or disposal:

Potential Acquisition/Disposal	Comment	Status
13 Shelly Row	2-bedroom house approved for market disposal	Sold
20 Beche Road	4-bedroom house approved for market disposal	Sold
2 Grafton Street	3-bedroom house approved for market disposal	Sold
23 Magrath Avenue	3-bedroom house in need of investment, approved for disposal at HSC in June 2016	Awaiting sale
188 Kendal Way	3-bedroom house currently owned by the County Council (linked to 12 Mortlock Avenue)	Awaiting acquisition
12 Mortlock Avenue	3-bedroom house currently leased to the County Council (linked to 188 Kendal Way)	Awaiting sale
1 Ferry House	2-bedroom house proposed for market disposal	Awaiting decision

New Build & Re-Development

General Approach

All new build housing in the HRA is now being delivered by the newly formed Housing Development Agency, who will project mange these sites alongside sites for a number of other partner organisations, including South Cambridgeshire District Council, Cambridge City Housing Company, Ermine Street Housing, Cambridgeshire County Council and the University. The H.D.A will charge a fee of 3% of gross build cost for affordable housing scheme delivery. The fee will be 1% of the gross build cost of the scheme, if the majority of housing is market or sub-market.

Potential new build schemes are still identified, and incorporated into the 3-year affordable housing rolling programme to allow formal feasibility investigation and consultation with stakeholders. The limited resources available to the HRA, and general economic uncertainty currently mean that schemes need to be carefully scrutinised to ensure continued viability.

Each scheme is considered and approved at Housing Scrutiny Committee based upon indicative costs, and then incorporated into the Housing Capital Investment Plan at the next approval opportunity. As the scheme design progresses and planning approval is sought, revised and more accurate scheme costs are available, culminating ultimately in a build contract value which forms the final budget for each scheme.

As part of the HRA Budget Setting Report or HRA Medium Term Financial Strategy, the latest scheme appraisal costs available at the time are incorporated into the financial models, and therefore the Housing Capital Investment Plan. These costs will not always be the finally agreed contractual sums that the authority enters into in all cases, but ensures that the most up to date data is being utilised.

Current New Build Schemes in Contract

Work continues to deliver the programme of HRA new build housing across the city. At the time of writing this report 123 new homes have been completed since April 2012.

Following some delays in the earlier stages of some new build projects in respect of securing vacant possession and obtaining planning permission, subsequent challenges have been faced in ensuring handover of new homes which meet our expectations. The impact of the delayed revenue stream for some sites may be mitigated in part, by contract clauses allowing negotiation of liquidated and ascertained damages, which will indemnify the Council in respect of a proportion of this loss.

The table below details the new build schemes (including acquisitions) that have reached completion since April 2012:

Scheme	Date Completed	Approved Social Housing Units	External Funding Source	Percentage Social Housing on Site
Jane's Court	November 2013	20	HCA Grant	59%
Anstey Way	January 2015	1	RTB Receipts	50%
Latimer Close	March 2015	12	HCA Grant	60%
Barnwell Road	July 2015	12	HCA Grant	59%
Campkin Road	March 2016	20	HCA Grant	63%
Stanesfield Road	March 2015	4	HCA Grant	50%
Atkins Close	June 2015	8	HCA Grant	100%
Wadloes Road	October 2015	6	RTB Receipts	100%
Colville Road (Acquisitions)	June 2015	6	RTB Receipts	76%
Atkins Close (Acquisitions)	June 2015	4	RTB Receipts	100%
Wadloes Road (Acquisitions)	October 2015	3	RTB Receipts	100%
Colville Road	June 2016	19	HCA Grant	76%
Total		**115**		

In addition to the above, 8 of the 20 units at Aylesborough Close had been handed over at the time of writing this report.

The table below summarises new build schemes currently in progress, providing details of the latest budgeted costs and number of units that will be delivered on each site once complete:

Scheme	Approved Social Housing Units	Approved Shared Ownership Units	External Funding Source	Latest Funding Approved (Capital Cost net of Land Transfer)	HCA Grant, RTB Receipt and Sales Receipt Funding	Net Funding (Capital Cost net of Grant, Land Transfer, Sales and RTB Receipts)
Hawkins Road	9	0	RTB Receipts	1,413,720	(424,120)	989,600
Fulbourn Road	8	0	RTB Receipts	1,320,540	(396,160)	924,380
Ekin Road	6	0	RTB Receipts	1,091,740	(327,520)	764,220
Water Lane *	14	0	HCA Grant	1,510,460	(719,000)	791,460
Aylesborough Close *	20	0	HCA Grant	3,073,000	(775,000)	2,298,000
Clay Farm	78	26	RTB Receipts, Sales Receipts and HCA Grant	16,204,780	(6,163,809)	10,040,971
Homerton	29	10	RTB Receipts and Sales Receipts	7,007,560	(2,354,759)	4,652,801
Total	**164**	**36**				

* Both Water Lane (by £369,000) and Aylesborough Close (by £275,000) scheme budgets have been increased to reflect the need to buy market dwellings on each of the sites, which are then in turn sold on to returning leaseholders, increasing the funding for each scheme by a comparable amount, therefore resulting in no change in net cost to the HRA.

The Housing Capital Investment Plan, an updated version of which is attached at Appendix J, incorporates the funding for new build schemes as identified in the tables above. It recognises the need for gross spend on the affordable housing scheme, land values, grant, right to buy receipts and sales receipts to be shown separately, and arriving at the net cash cost to the Council as per the table above. For these purposes the use of retained right to buy receipt is treated as an external funding source, recognising that failure to utilise it as statutorily required, would result in the need to pay the receipt over to Central Government.

Future New Build - Garage and In-Fill Sites

In March 2015, approval was given to proceed with the 2015/16 programme of garage and in-fill sites on HRA land, with initial funding of £3,030,000 to deliver 18 units, incorporated into the financial plans. Based upon the latest indications following discussions with Planning and Urban Design, it is now anticipated that it will be possible to deliver 17 units on the identified sites. The budget for this scheme has therefore been amended to reflect the reduction in units, and to incorporate the impact of price increases since the scheme was given outline approval in March 2015, resulting in a revised budget for this scheme of £3,013,000.

At Housing Scrutiny Committee in September, approval was given to add to this programme with four additional in-fill sites, allocating £709,000 of resource identified for new build to these specific sites. The sites in this programme now include:

Scheme	Site Type	Status	Current Budget Approval (£)	Potential New Build Units
Cadwin Fields and Nuns Way	Garage	Pre-planning	3,013,000	2
Cameron Road	Garage	Pre-planning		6
Wiles Close	Garage	Pre-planning		3
Tedder Way	In-fill	Consultation stage		2
Kendal Way	In-fill	Pre-planning		2
Uphall Road	Garage	Pre-planning, potential in-house build		2
Queensmeadow	In-fill	Feasibility stage	709,000	1
Hills Avenue	In-fill	Feasibility stage		1
Wulfstan Way	In-fill	Feasibility stage		2
Total			**3,722,000**	**21**

Once approved in principle, consultation, further investigative and feasibility work is undertaken, with a view to obtaining planning permission and building out the sites as soon as is practically achievable.

Akeman Street

In January 2016, Housing Scrutiny Committee considered a report for the redevelopment of mixed use HRA site in Akeman Street, where 10 new affordable homes were proposed in place of the current mixed commercial and residential development, which provides only 2 social rented homes.

Although the scheme received approval to proceed, a commitment was made to return to committee with a revised scheme mix, following further consideration of the number of units which could be re-provided on the site and whether any re-provision of commercial or community facility should also be incorporated.

Anstey Way

The Anstey Way site continues to be subject to land assembly activity, with the Council in the process of buying back any leasehold dwellings on the site, whilst also actively re-housing existing tenants in new homes.

The original new build scheme presented for Anstey Way, which would have delivered 34 homes in place of the existing 28, could not be fully funded in light of the financial pressures facing the HRA.

Funding of £1,280,000 was incorporated in the Housing Capital Investment Pan in September 2015 to meet the cost of land assembly for the site, with a subsequent £3,110,000 identified as part of the 2016/17 budget process towards the cost of re-developing the site.

Additional resource of £400,000 has been incorporated in the Housing Capital Investment Plan as part of this report, recognising that the costs of site assembly will be higher than originally anticipated based upon a combination of the current market value of the leasehold flats which are being re-purchased to facilitate the future development of this site and the impact of changes in stamp duty.

Once the site has been vacated, it is anticipated that the bungalows, as a minimum, will be demolished to avoid any unlawful occupation or anti-social behaviour in the locality.

Although options for the site are being explored, no decisions have yet being taken, as the final outcome of the devolution proposals may well increase flexibility in the use of HRA resources, resulting in a wider number of options being available for investing in new homes on this site.

Details of all changes to the new build investment programme are provided and reconciled in Appendix E.

Devolution

Discussions with Central Government in respect of the potential for devolution across East Anglia have culminated in a recent agreement to proceed to public consultation on a governance structure, based upon a brother / sister devolution deal for the region.

The devolution arrangements would see an arrangement for Norfolk and Suffolk together, and a separate arrangement for Cambridgeshire and Peterborough, with both having an elected mayor for their area.

In respect of the Cambridgeshire and Peterborough offer, government funding of £100 million would be made available for housing and infrastructure costs to meet the impact of growth in the area, with a particular focus on the Greater Cambridge area encompassed by the South Cambridgeshire and Cambridge City areas. In addition, £70 million would be made available over 5 years, ring-fenced for social rented housing and to be spent in Cambridge City Council's HRA. A government allocation of £20 million over 30 years would be provided to meet the ongoing costs of supporting infrastructure. If the devolution offer proceeds, the projections for the future of the HRA will look different.

£70 million of funding over 5 years is anticipated to allow the delivery of up to 500 homes over this period, assuming that this is also combined with right to buy receipts where they are available. The new homes would be let at social housing rent levels, using the Local Housing Allowance as a guide for this. The resource could be invested on HRA sites, General Fund sites, or for the delivery of the affordable housing element on Section 106 sites. As the new homes will not carry any liability in the form of prudential borrowing, the assets will make a positive contribution to the HRA business plan from the outset, helping to offset some of the impact of homes lost through right to buy and the higher value voids levy when it is implemented.

The funding and resulting 500 new homes have not been built into the HRA Business Plan at this stage, as there is further work to do before the devolution deal is finalised. However, if agreed, the funding could be used towards the schemes mentioned above in the future new build programme, releasing resource elsewhere to allow the Anstey Way scheme to proceed.

Section 8
Summary and Conclusions

HRA Budget Strategy

The Budget Process

The HRA budget for 2017/18 will incorporate the work being carried out as part of the Housing Transformation Programme. The process will remain broadly similar to that for previous years in terms of timing and detailed administration.

The work being undertaken as part of the Transformation Programme to exemplify savings will allow response to the changes in national housing policy which negatively impact the HRA business model, but would also allow strategic re-direction of resource into other areas of investment, such as new build housing, if the financial pressures are not as currently anticipated.

The potential for devolution alters the short-term position for the HRA, but would not address the delivery of a sustainable HRA over the full 30 years if the higher value voids levy were to be implemented as we are currently assuming. A degree of cost reduction or additional income generation would still be required to ensure the longer-term viability of the business.

The updated base model used to prepare this report incorporates a global reduction in spending as identified in the Housing Transformation Programme report presented to Housing Scrutiny Committee in June 2016. The detail in terms of individual savings proposals, and the impact of reducing budgets by these values, will be presented as part of the 2017/18 budget bids and savings process.

For 2016/17 the HRA Medium Term Financial Strategy incorporates changes in the anticipated interest earned in year from a revenue perspective, recognising that the opening balances at the start of the year were higher than anticipated and adjusts the anticipated level of rental income based upon updated knowledge of the timing of sales and the delivery of new build homes. The level of administrative costs of sales that can be charged to capital has been updated, and has the amount of interest payable on internal borrowing. Also incorporated are changes in the capital programme in respect of the budget now required for specific new build schemes, adjusted as they reach the next milestone in the development process and for non-scheme specific new build investment, based upon the level of investment required to avoid paying nay retained right to buy to Central Government, instead ensuring they are re-invested in the locality.

Approach to HRA Savings

The historic target for annual savings in the HRA of 2% ongoing savings in general management expenditure has been replaced for the next two years with the Housing Transformation Programme target of £1,000,000 per annum, and has been removed after this point. An adjustment in respect of repairs expenditure in line with estimated stock changes has been maintained.

Transformation funding of £120,000 per annum is also incorporated now for a 3 year period, allowing not only the one-off costs associated with change and transformation to be met, but also any ongoing revenue spending that may be required as a result of changes in the housing sector, for example to allow the authority to meet any unmet costs of the Pay to Stay agenda. If not utilised in each year to fund ongoing expenditure, the transformation budget could be offered as a savings towards the target set.

At this stage, pending the outcome of the review of the self-financing debt as part of the transformation programme, the assumption that the authority attempts to set-aside resource for the repayment of up to 25% of the housing debt by the point at which the loan portfolio begins to reach maturity, is retained. The authority will reconsider its approach to set-aside, although any decision in this regard will be taken in full knowledge of the financial risks which will accompany it.

As part of the 2017/18 budget setting process, any areas of new revenue investment, outside of that to be met from the Transformation Programme fund, will need to be offset by the identification of additional savings or increased income generation elsewhere across the HRA.

Until the devolution offer is confirmed finally, one of the key challenges for 2016/17 and beyond, remains the need to identify sufficient resource for investment in new build housing to ensure that the authority can continue to retain right to buy receipts and re-invest them appropriately. with the potential for retained right to buy receipts to need to be paid over to CLG, with interest, currently at 4.5%, calculated from the quarter in which they were originally received.

The level of capital investment in the housing stock was reviewed in 2015/16, resulting in a similar monetary investment requirement to that previously assumed. However, due to escalating building industry costs, now only providing for a lower level of investment in the housing stock overall. Any further savings in spending in respect of the existing stock, would be likely to mean a return to the basic decent homes approach.

The position will be reviewed again as part of the January 2017 HRA Budget Setting Report, with a view to maintaining service delivery in key statutory areas and protecting services for the most vulnerable, whilst attempting to maintain a programme of new build housing where possible.

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 where appropriate.

The base financial assumptions included in the financial model are included at Appendix B, with continuing uncertainties for the HRA summarised at Appendix K.

Appendix G summarises the revenue budget position for the HRA for the period between 2016/17 and 2020/21, based upon inclusion of the amended financial assumptions that form part of the update to the Self-Financing Business Plan.

Appendix J demonstrates the potential impact of the business plan of changes in some of the base assumptions that have been incorporated as part of this review, including the negative impact if rent increases are not returned to the level of CPI plus 1% from 2020/21 as being assumed.

HRA MTFS Conclusions

Updating the base assumptions for the HRA has had a significant impact on the future financial projections for the housing business.

One of the key positive changes in the business plan is a significant reduction in the assumed level of depreciation to be charged for the housing stock in future years, following a review by our independent external valuers, which resulted in an extension of remaining assets lives for many of the properties within the HRA. A reduction in the level of depreciation reduces the amount of resource which needs to be transferred into the Major Repairs Reserve, where it can then only be spent on capital activity, and instead leaves the resource in the revenue account, where it can be used to fund either revenue or capital activity, thus increasing the flexibility in the use of this resource.

Current financial modelling retains the assumption of the requirement to reduce rents by 1% per annum for four years from April 2016 and the compulsion to sell higher value housing stock on the open market when it becomes void. If we add to this the assumption made as part of the Housing Transformation Programme, that savings totalling £2,000,000 will be identified across 2017/18 and 2018/19, alongside the existing policy that the authority should set-aside revenue resource to be in a position to be able to redeem 25% of the loans when they reach maturity, the HRA is able to set a revenue budget until year 31, 2047/48, after which reserves are diminished within a further 3 years.

Although the revenue position, assuming the savings target of £2,000,000 is delivered in full, is just viable for the life of the business plan, the capital programme is not fundable from year 23, 2039/40, at which point the authority would be forced to breach their debt cap in order to meet the investment need in the housing stock.

Some of the revenue resource released by the change in depreciation levels has been included in the earlier years of the business plan as revenue funding of capital expenditure to provide the top up required alongside retained right to buy receipts, allowing continuation of a new build programme until 2018/19, and avoiding the need to pay sales receipts to central government during this short to medium term period.

It could be argued that this resource could instead be reserved to allow the capital programme to be funded for slightly longer than the 22 years currently funded, but this would negatively impact the revenue position, as the short extension to the new build programme increases the rental stream for the HRA as it goes a little way towards replacing some of the stock lost through right to buy and the assumed sale of higher value voids.

From 2018/19 onwards, a line has been incorporated into the Housing Capital Investment Plan recognising that there may be the need to pass retained right to buy receipts to a registered provider for re-investment in affordable housing where the HRA does not currently have sufficient resource to top this funding up. This would avoid the need to pay the receipts over to central government, and would ensure that the delivery of new homes in the locality is maximised.

The final outcome of the current devolution offer will be key to whether the HRA is able to continue to invest in new build homes itself after 2018/19, or may alternatively need to work with a registered provider to facilitate the delivery. Although not built into the assumptions currently, the one-off additional resource of £70,000,000 to be made available through devolution spread over 5 years would enable the delivery of up to 500 new homes over the medium term.

Any options available to the authority are currently predicated on the assumption that the Housing Transformation Programme will reduce costs or generate additional income of at least £2,000,000. The first £1,000,000 is anticipated to be identified for delivery in 2017/18, allowing for clarity in some of the national housing policy changes before the second tranche of savings are identified in preparation for 2018/19 budgets.

The work streams anticipated to deliver in year 1 are:

- Housing Management
- Repairs, Voids and Building Projects
- Stores
- Central Overheads and Recharges (Phase I)
- Pay to Stay

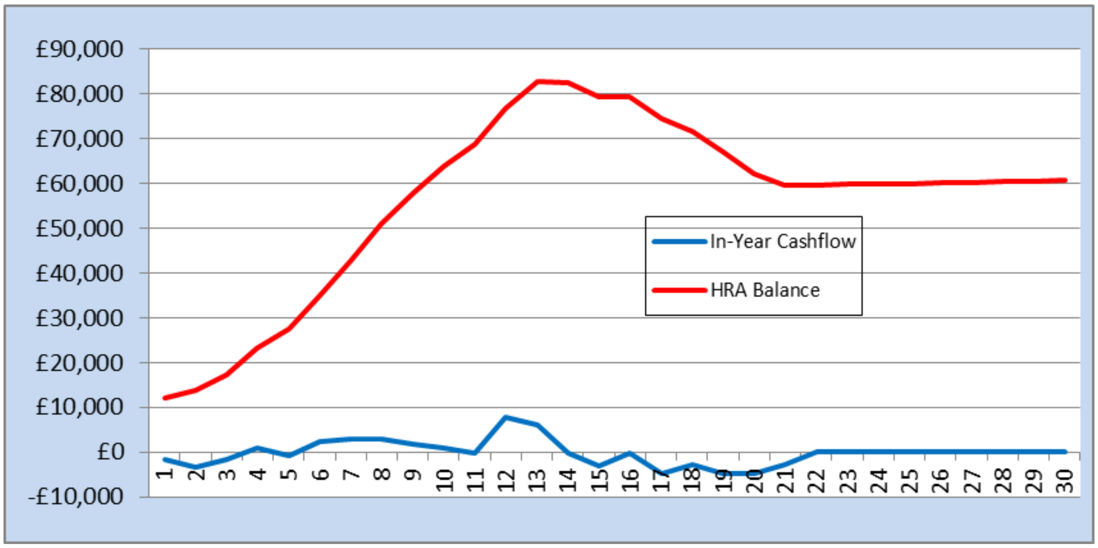
The work streams anticipated to deliver by year 2 are:

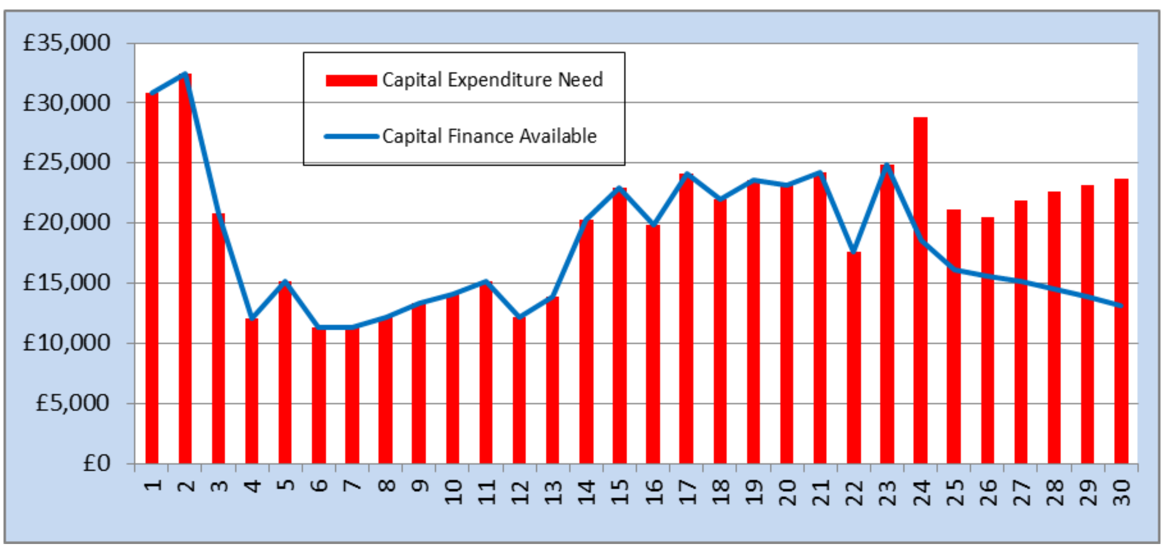
- Repairs Standards Review
- Senior Management Review
- Central Overheads and Recharges (Phase II)
- Debt Repayment
- Disabled Adaptations Investment and Policy
- Decent Homes Investment

The consideration of shared services is also to be explored, within a slightly longer timescale of 2 to 3 years.

The first graph below shows the financial forecast for the HRA with the current base assumptions and the anticipated savings from the Housing Transformation Programme included, demonstrating the ability to set-aside revenue resource in the early years to be able to meet the existing policy of 25%.

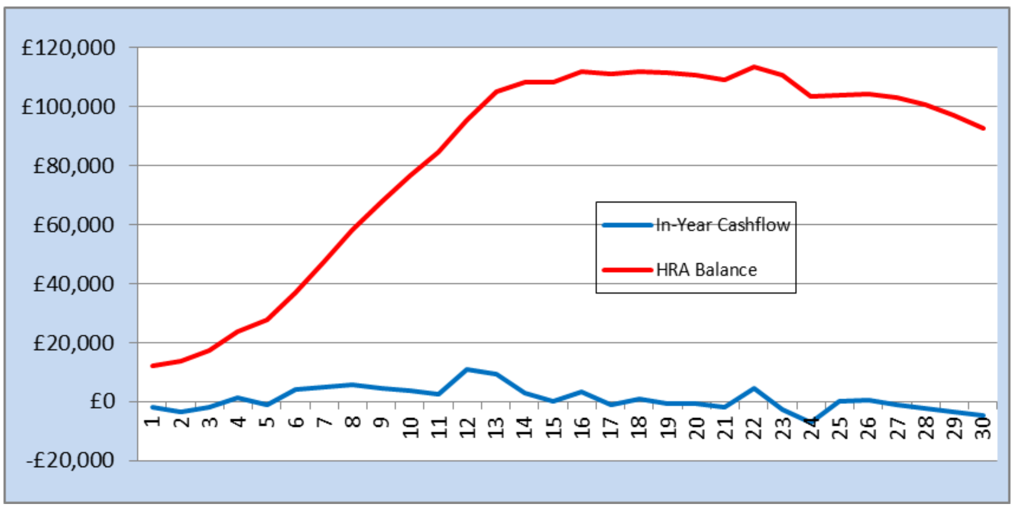
The second graph, however, depicts the inability to finance the required investment in the housing stock from year 23 onwards, which would force the HRA to re-finance all of its borrowing as each loan reaches maturity in order to be able to maintain the housing stock at currently agreed stock condition levels.

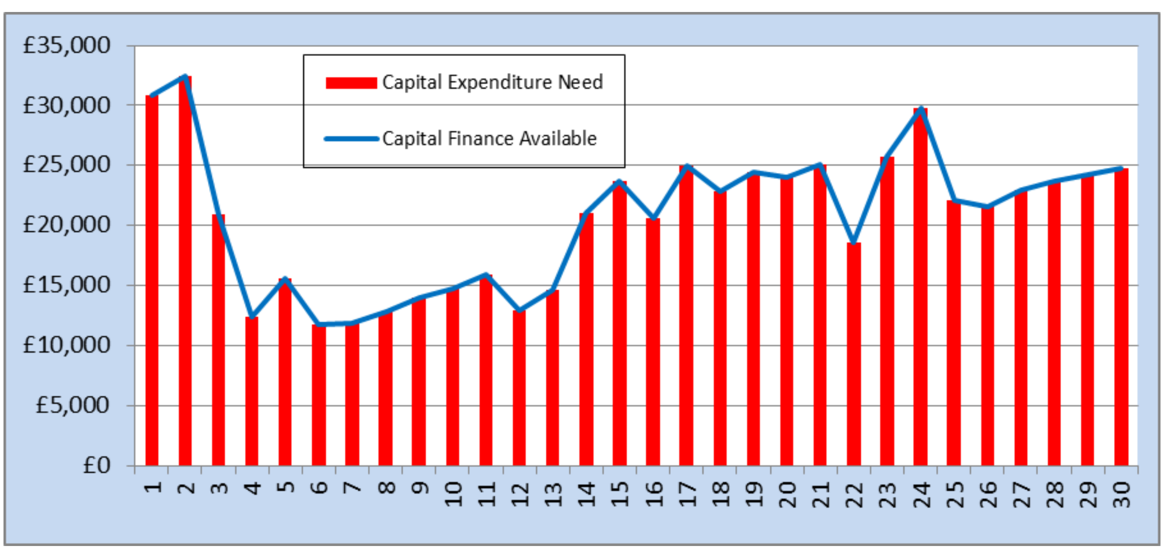




To illustrate the impact which devolution may have, the following graphs depict the position assuming the ability to deliver up to 500 new homes over the medium term. An assumed 440 new homes have been incorporated into the business plan, which would utilise the £70,000,000 devolution funding and all of the uncommitted anticipated retained right to buy receipts over the same period. The base assumption that £2,000,000 of savings will be identified has been retained.

Based upon this scenario, the HRA would be financially viable for life of the business plan, and the ability to fund the required expenditure in the capital programme would be extended for the life of the plan. This does however demonstrate that even with the devolution money, there is still the need to reduce cost in the HRA in the short-term as currently identified, assuming that the high value voids levy materialises as currently assumed.





Appendix A

Key Risk Analysis

Risk Area & Issue arising	Controls / Mitigation Action
Effects of Legislation / Regulation	
Implications of new legislation / regulation or changes to existing are not identified	• Effective, formal, regular review processes are in place for the HRA to ensure that implications are identified, quantified and highlighted
Funding is not identified to meet the costs associated with changes in statutory requirements	• Additional / specific funding requirements for new services can be identified through the budget process, to allow effective prioritisation of resources
HRA Debt Settlement could be re-opened by Government (or not re-opened when changes dictate that it should)	• The Council has processes in place ensuring early engagement in any consultation and collective representation through national housing bodies
Changes in national rent policy impact the ability to support the housing debt or deliver against planned investment programmes	• Impact of any proposed changes to national rent policy is incorporated into financial planning as early as possible. • Consideration could be given to deviating from national rent policy at a local level if statute were to allow
Implementation of Pay to Stay and Fixed Term Tenancies carry administrative costs that far outweigh any allowances provided	• Limited resource is incorporated into financial plans for the ongoing costs associated with housing transformation, with the opportunity to review this annually
Housing Portfolio & Spending Plans	
The Council approves plans which are not sustainable into the future, leading to increasing problems in balancing budgets	• Council has adopted medium and long-term modelling (up to 30 years) for HRA, ensuring decisions are made in context of long-term impact • The Business Plan includes long-term trend analysis on key cost drivers such as growth levels and demographics, and their implications • Target levels of reserves are set for the HRA to enable uneven pressures to be effectively dealt with, and to provide cover against unforeseen events / pressures

Risk Area & Issue arising	Controls / Mitigation Action
Financial planning lacks appropriate levels of prudency	
Business Planning assumptions are wildly inaccurate Financial policies, in general, are not sufficiently robust Funding to support the approved Capital Plan is not available	Council has adopted key prudency principles, reflected in: • Use of external expert opinion and detailed trend data to inform assumptions • Ongoing revenue funding for capital is reviewed for affordability as part of the 30-year modelling process • Adoption of strict medium / long-term planning • Policy on applying general capital receipts for strategic disposals only at point of receipt
Use of resources is not effectively managed	
There is ineffective use of the resources available to the HRA Failure to deliver Major Housing / Development Projects, i.e. return on capital, project on time etc.	• Council employs robust business planning processes for the HRA • Council has adopted a standard project management framework • A business cases is required for all strategic acquisitions, disposals and one-off areas of significant investment • Performance and contractor management procedures are robust and contracts are enforceable • The Council's accounts are audited on an annual basis, with assurance given that the authority is delivering economy, efficiency and effectiveness in its use of resources

Risk Area & Issue arising	Controls / Mitigation Action
External income / funding streams	
Undue reliance may be placed on external income streams, leading to approval of unsustainable expenditure	• Modelling over the medium and long-term is conducted for key income sources, including sensitivity analysis of potential changes • Council seeks to influence national settlements and legislative changes through response to formal consultation and the provision of information to negotiation bodies such as LGA and CIH
Rent and service charge arrears increase and bad debt rises, as a direct result of the Welfare Benefit Reforms	• Increased resources identified for income management. Performance closely monitored to allow further positive action if required.
Rent income is under-achieved due to a major incident in the housing stock	• Asset Management Plan in place to identify and address key issues in the housing stock to minimise likelihood of widespread incidents
Changes to the right to buy rules, pooling regulations and Pay to Stay result in a continued high level of sales, with the associated 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
Volatility and competition in the property market impacts the ability to fund capital pressures from the sale of assets	• Policy on applying general capital receipts for strategic disposals only at point of receipt
Volatility and uncertainty in the property market impacts the ability to dispose of assets at appropriate values and within timescales required to meet the higher value voids levy	• Reconsider appropriate level of HRA reserves to hold as a minimum once the levy vale is known • Retain capital receipts realised in advance of the levy in anticipation of the need for them

Appendix B

Business Planning Assumptions (Highlighting Changes)

Key Area	Assumption	Comment	Status
General Inflation (CPI)	**1.9% for 2017/18, then 2.4% ongoing**	**General inflation on expenditure included at 1.9% for 2017/18, rising to 2.4% from 2018/19 ongoing, per OBR (Office for Budgetary Responsibility) forecasts.**	**Amended**
Capital Inflation	**3.7% for 3 years, 4.6%, 6.4%, then 4.5% ongoing**	**Based upon the BCIS forecast for the next 5 years, using an average over this period as the ongoing assumption**	**Amended**
Debt Repayment	Set-aside 25% to Repay Debt	Assumes surplus is re-invested in income generating assets, with 25% of resource set-aside to repay debt as loans reach maturity dates, pending review of the set-aside policy as part of the Housing Transformation Programme.	Retained
Capital Investment	Reduced Partial Investment Standard	Base model assumes a reduced partial investment standard in the housing stock, compared with a basic decent homes standard. This will be reviewed again during 2017/18.	Retained
Pay Inflation	**1.9% Pay Progression plus: 2017/18 – 1.0% 2018/19 – 1.0% 2019/20 – 1.0% 2% ongoing**	**Assume allowance for increments at 1.9%. Pay inflation for four years from 2016/17 limited to 1% reflecting recent Government guidance, and a return to 2% thereafter, reflecting economic recovery.**	**Amended**
Employee Turnover	**0% (3% transitional only)**	**Employee budgets assume a turnover saving of 3.0% of gross pay budget only until service restructure, at which point this assumption is removed**	**Amended**
Rent Increase Inflation	-1% from 2016/17 for 4 years, then CPI plus 1% for 4 years, then CPI plus 0.5% from 2024/25	Rent decreases of 1% per annum in line with government guidelines from 2016/17 to 2019/20, then CPI plus 1% until the end of the 10 year period, reverting to inflation plus 0.5% after this. Assume CPI in preceding September is as above.	Retained
Rent Convergence	Voids Only	Ability to move to target rent achieved only through movement of void properties directly to target rent.	Retained
External Lending Interest Rate	**1%, 0.88%, 1.07% then 1.13% ongoing**	**Interest rates based on latest market projections, including the impact of CCLA investment.**	**Amended**
Internal Lending Interest Rate	**1%, 0.88%, 1.07% then 1.13% 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.**	**Amended**

Key Area	Assumption	Comment	Status
External Borrowing Interest Rate	**2.4%, 2.5%, then 2.7% ongoing**	**Assumes additional borrowing using Capita predictions of PWLB rates, rising to 2.7% over the next 3 years, including assumed certainty rate.**	**Amended**
Internal Borrowing Interest Rate	**2.4%, 2.5%, then 2.7% ongoing**	**Assume the same rate as external borrowing to ensure flexibility in choice of borrowing route.**	**Amended**
HRA Minimum Balances	£2,000,000	Maintain HRA minimum balance at £2,000,000, pending a review once the impact of the higher value voids levy and other housing policy changes are clear.	Retained
HRA Target Balances	£3,000,000	Maintain HRA target balance at £3,000,000, pending a review once the impact of the higher value voids levy and other housing policy changes are clear.	Retained
Right to Buy Sales	**55, 50, 45, 40, 35, 30, then 25 sales ongoing**	**Pay to Stay expected to sustain a higher level of activity. Assume 55 for 2016/17, reducing by 5 sales per annum, until 25 are assumed ongoing.**	**Amended**
Right to Buy Receipts	Settlement right to buy and assumed one-for-one receipts included	Debt settlement receipts included, assuming the receipts utilised partly for general fund housing purposes. Anticipated one-for one receipts included, but with only those received to date committed to specific new build schemes. Debt repayment proportion contributes to set-aside.	Retained
Void Rates	1%	Assumes 1% per annum from 2017/18 onwards.	Retained
Bad Debts	**0.56% for 2016/17, then 0.84% for 2017/18 and 1.12% ongoing**	**Bad debt provision increased by 100% long term, to reflect the requirement to collect 100% of rent directly, assuming an extension of the existing payment profile across the entire housing stock as Direct payment is implemented from 2016.**	**Amended**
Savings Target	**£1,000,000 for 2017/18 and 2018/19, then removed**	**2 year target included assuming the need to offset loss of rental income and sale of higher value voids. Similar pressure to reduce spending may exist longer term.**	**Amended**
Responsive Repairs Expenditure	Adjusted pro rata to stock changes	An assumption is made that direct responsive repair expenditure is adjusted annually in line with any change in stock numbers.	Retained
Transformation / Spend to Save Fund	**£120,000 for 3 years from 2016/17**	**Policy space replaced by Housing Transformation / Spend to Save Fund for 3 years, with delegation to the Strategic Advisor to Housing.**	**Amended**
Service Reviews	On case by case basis	Service review outcomes assumed to deliver to the HRA as indicated in the review business case.	Retained

Appendix C

Retained 1-4-1 Right to Buy Receipts

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 New Dwelling	Qualifying Spend by Deadline (Cumulative)	Retained 1-4-1 Receipt Spent (Cumulative)	Balance of Retained 1-4-1 Receipts to be Spent or Paid to CLG (Cumulative)	Further New Build Spend Required by Deadline (Cumulative)
30/09/2012	305,694.44	305,694.44	1,018,981.47	30/09/2015	6,033,316.06	1,809,994.82	0.00	0.00
31/12/2012	1,052,927.43	1,358,621.87	4,528,739.57	31/12/2015	9,420,870.94	2,826,261.28	0.00	0.00
31/03/2013	721,056.95	2,079,678.82	6,932,262.73	31/03/2016	13,631,090.94	4,089,327.28	0.00	0.00
30/06/2013	558,506.21	2,638,185.03	8,793,950.10	30/06/2016	14,432,244.66	4,329,673.40	0.00	0.00
30/09/2013	649,210.49	3,287,395.52	10,957,985.07	30/09/2016			0.00	0.00
31/12/2013	939,637.07	4,227,032.59	14,090,108.63	31/12/2016			0.00	0.00
31/03/2014	1,556,452.02	5,783,484.61	19,278,282.03	31/03/2017			1,453,811.21	4,846,037.37
30/06/2014	1,053,196.82	6,836,681.43	22,788,938.10	30/06/2017			1,053,196.82	3,510,656.07
30/09/2014	517,057.26	7,353,738.69	24,512,462.30	30/09/2017			517,057.26	1,723,524.20
31/12/2014	1,004,106.23	8,357,844.92	27,859,483.07	31/12/2017			1,004,106.23	3,347,020.77
31/03/2015	831,750.78	9,189,595.70	30,631,985.67	31/03/2018			831,750.78	2,772,502.60
30/06/2015	595,447.59	9,785,043.29	32,616,810.97	30/06/2018			595,447.59	1,984,825.30
30/09/2015	902,092.08	10,687,135.37	35,623,784.57	30/09/2018			902,092.08	3,006,973.60
31/12/2015	857,169,10	11,544,304,47	38,481,101.49	30/12/2018			857,169.10	2,857,230.33
31/03/2016	1,591,834,76	13,136,139.23	43,787,130.77	31/03/2019			1,591,834.76	5,306,115.87
30/06/2016	2,263,872.93	15,400,012.16	51,333,373.88	30/06/2019			2,263,872.93	7,546,243.10

Appendix D

2016/17 HRA Mid-Year Revenue Budget Adjustments

Area of Income / Expenditure	Description	Budget Amendment in 2016/17 Budget (£)	Budget Amendment in 2017/18 Budget (£)	Comment
Budgeted use of / (contribution to) HRA Reserves pre MTFS		**1,941,610**		
HRA Summary Account				
Rent Income	Reduction in rent income due to delays in the delivery of the new build programme.	100,650	Incorporated into base assumptions	Built into base for future years
Bad Debt Provision	Reduction in bad debt provision back to level of 0.56% for 2016/17, rising to the higher level of 1.12% by 2018/19.	(206,680)	Incorporated into base assumptions	Short-term and built into base for future years
RTB Capitalisation	Increase in ability to capitalise cost associated with sale of properties under right to buy, as number of sales is predicted to rise.	(28,350)	Incorporated into base assumptions	Short-term and built into base for future years
Interest paid on Borrowing	Interest paid for notional internal borrowing has been reduced as a direct result of a reduction in the interest rate applicable.	(18,820)	Incorporated into base assumptions	Short-term and built into base for future years
Interest earned on HRA Balances	Although interest rates are anticipated to fall, the level of balances held by the HRA result in an estimated increase in the level of interest that will be earned.	(36,800)	Incorporated into base assumptions	Built into base for future years
Apprenticeship Levy	HRA share of the new Apprenticeship Scheme Levy from April 2017	0	25,000	Built into base from 2017/18
Rent Collection Costs	Re-allocation of £120,000 included for collection costs associated with direct payment, to be utilised to meet costs of implementing Pay to Stay	0	One-Off	Re-allocation of existing resource
Total HRA Summary Account		**(190,000)**		
Revised use of / (contribution to) HRA Reserves post MTFS		**1,751,610**		

Appendix E

2016/17 Mid-Year HRA Capital Budget Amendments

Area of Expenditure And Change	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Housing Capital Plan Expenditure pre HRA MTFS	**37,646**	**20,996**	**9,255**	**13,200**
General Fund Housing				
Increase in budget for DFG's to enable spending of increased Better Care Fund Grant	26	0	0	0
Decent Homes and Other HRA Stock Investment				
Re-phase funding for School Court communal boiler and plant room replacement to 2017/18	(450)	550	0	0
Vire communal areas uplift budget to boilers in 2017/18 to allow for School Court boiler and plant room replacement	(100)	0	0	0
Include additional provision for door replacements due to accelerated failures	60	60	60	60
Re-phase bathroom replacement funding over following four years for delivery purposes	(200)	50	50	50
Re-phase sulphate attack funding to the end of the programme pending review of this allocation overall	(77)	0	0	0
Include additional funding in other health and safety works for Woburn Close balconies	160	0	0	0
Remove budget for hard surfacing works to meet £100k saving target in discretionary works, whilst delivering a £42k additional one-off saving	(142)	0	0	0
Meet 2016/17 discretionary spend saving from hard surfacing budget	100	0	0	0
Adjust contractor overheads to reflect re-phased spend		72	12	12
Adjustment to allocation for new build decent homes work to recognise delays and additions in the programme	(106)	44	108	192
New Build				
Gross up spend for Water Lane and Aylesborough Close to recognise property acquisitions for returning leaseholders, to be offset by capital receipts	644	0	0	0
Inclusion of additional carry forward for Clay Farm to reflect correction to creditors raised in error as part of post closedown process	521	0	0	0
Inclusion of additional carry forward for Homerton to reflect correction to creditors raised in error as part of post closedown process	261	0	0	0
Re-phasing of spend for Clay Farm	(337)	337	0	0

Area of Expenditure And Change	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Re-phasing of ear-marked resource for Anstey Way	(560)	560	0	0
Amendment to budget for 2015/16 Garage Sites to correct budgeting error, reflect reduction of one unit and add inflation to 2016/17 prices	13	0	0	0
Re-phasing of spend for 2015/16 Garage Sites	(2,233)	2,233	0	0
Inclusion of additional resource for the le4asehold re-purchase that form part of the site assembly costs at Anstey Way	400	0	0	0
Transfer from New Build + RTB Receipts unallocated spend to approved 2016/17 In-Fill Sites	0	(709)	0	0
Include budget for approved 2016/17 In-Fill Sites	0	709	0	0
Re-phase New Build + RTB Receipts unallocated spend to2016/17	(2,645)	2,645	0	0
Inclusion of additional New Build + RTB Receipts unallocated spend to match RTB receipts	0	6,170	12,321	0
Inclusion of assumed grants to Registered Providers where RTB receipts can't yet be met with existing HRA resource, pending Devolution outcome	0	0	2,010	3,000
Other HRA Spend				
Include funding for implementation of stores review, to include new stores and van racking	130	0	0	0
Inflation Allowance				
Remove inflation adjustment for 2016/17 as not to be allocated to work streams and adjust inflation allowed to reflect new base and recognise new build using RTB receipts is cash limited	(2,223)	(1,285)	(993)	(1,401)
Total Housing Capital Plan Expenditure post HRA MTFS	**30,888**	**32,432**	**22,823**	**15,113**

Appendix F

New Build Investment Cashflow

New Build / Re-Development Scheme	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget
	£'0	£'0	£'0	£'0	£'0	£'0
New Build / Re-Development Cash Expenditure (Net of Developer's Cross Subsidy / Notional Land Value)						
Colville Road (Phase 1)	107,000	0	0	0	0	0
Water Lane	678,000	0	0	0	0	0
Aylesborough Close	557,000	0	0	0	0	0
Hawkins Road (Garage Site)	680,000	0	0	0	0	0
Fulbourn Road (Garage Site)	1,293,000	0	0	0	0	0
Ekin Road (Garage Site)	268,000	0	0	0	0	0
Clay Farm	7,796,000	2,717,000	0	0	0	0
Homerton	2,753,000	0	0	0	0	0
Garage Sites 2015/16	780,000	2,233,000	0	0	0	0
In-Fill Sites	0	709,000	0	0	0	0
Anstey Way (Land Assembly)	1,642,000	0	0	0	0	0
Anstey Way (Ear-Marked Funds)	250,000	2,860,000	0	0	0	0
Akeman Street	129,000	1,844,000	0	0	0	0
New Build / Acquisition – + RTB Receipts	1,322,000	9,711,000	12,321,000	0	0	0
Grants to Registered Providers	0	0	2,010,000	3,000,000	3,000,000	3,000,000
New Build / Re-Development Expenditure equivalent to Notional Land Value						
Spend Equivalent to Land Value	545,000	0	0	0	0	0
Total New Build/ Re-Development Expenditure	**18,800,000**	**20,074,000**	**14,331,000**	**3,000,000**	**3,000,000**	**3,000,000**

New Build / Re-Development Scheme	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget
	£'0	£'0	£'0	£'0	£'0	£'0
New Build / Re-Development Grant and Area Committee Funding						
Water Lane	(87,500)	0	0	0	0	0
Aylesborough Close	(125,000)	0	0	0	0	0
Clay Farm	0	(97,125)	*0*	*0*	*0*	*0*
Total New Build / Re-Development Funding	**(212,500)**	**(97,125)**	**0**	**0**	**0**	**0**
Use of Retained Right to Buy Funding						
Hawkins Road (Garage Site)	(204,000)	0	0	0	0	0
Fulbourn Road (Garage Site)	(387,900)	0	0	0	0	0
Ekin Road (Garage Site)	(80,400)	0	0	0	0	0
Clay Farm	(1,706,680)	(601,540)	0	0	0	0
Homerton	(612,780)	0	0	0	0	0
Garage Sites 2015/16	(234,000)	(669,900)	0	0	0	0
In-Fill Sites	0	(212,700)	0	0	0	0
Akeman Street	(30,960)	(442,560)	0	0	0	0
New Build – With RTB Receipts	(396,600)	(2,913,300)	(3,696,300)	0	0	0
Grants to Registered Providers	0	0	(2,010,000)	(3,000,000)	(3,000,000)	(3,000,000)
Total Use of Retained Right to Buy Funding	**(3,653,320)**	**(4,840,000)**	**(5,706,300)**	**(3,000,000)**	**(3,000,000)**	**(3,000,000)**
Total to be funded from HRA Resources (DRF & MRR), Sales Receipts and Non-RTB Capital Receipts	**14,934,180**	**15,136,875**	**8,624,700**	**0**	**0**	**0**
Total HRA Borrowing	**0**	**0**	**0**	**0**	**0**	**0**

Appendix G

HRA Summary Forecast 2016/17 to 2020/21

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Income					
Rental Income (Dwellings)	(36,799,670)	(36,384,160)	(36,116,660)	(35,507,590)	(35,933,670)
Rental Income (Other)	(1,086,020)	(1,106,650)	(1,133,210)	(1,160,410)	(1,188,260)
Service Charges	(2,573,880)	(2,640,960)	(2,699,130)	(2,758,700)	(2,819,690)
Contribution towards Expenditure	(3,270)	(3,330)	(3,410)	(3,490)	(3,580)
Other Income	(471,750)	(474,090)	(478,690)	(483,230)	(487,710)
Total Income	**(40,934,590)**	**(40,609,190)**	**(40,431,100)**	**(39,913,420)**	**(40,432,910)**
Expenditure					
Supervision & Management - General	3,571,980	3,775,810	3,979,410	4,274,960	4,606,000
Supervision & Management - Special	2,566,540	2,623,920	2,691,330	2,760,480	2,840,820
Repairs & Maintenance	6,588,430	6,420,210	6,592,570	6,778,370	6,990,490
Depreciation – to Major Repairs Res.	8,952,760	9,309,050	9,672,200	10,069,580	10,402,840
Debt Management Expenditure	0	0	0	0	0
Other Expenditure	3,194,140	2,456,040	1,685,260	1,709,020	1,745,200
Total Expenditure	**24,873,850**	**24,585,030**	**24,620,770**	**25,592,410**	**26,585,350**
Net Cost of HRA Services	**(16,060,740)**	**(16,024,160)**	**(15,810,330)**	**(14,321,010)**	**(13,847,560)**
HRA Share of operating income and expenditure included in Whole Authority I&E Account					
Interest Receivable	(335,330)	(296,790)	(348,260)	(421,440)	(487,760)
(Surplus) / Deficit on the HRA for the Year	**(16,396,070)**	**(16,320,950)**	**(16,158,590)**	**(14,742,450)**	**(14,335,320)**
Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance					
Loan Interest	7,522,470	7,523,650	7,535,200	7,562,780	7,572,280
Housing Set Aside	0	5,134,870	5,134,870	5,134,870	5,134,870
Appropriation from Ear-Marked Reserve	(13,200)	0	0	0	0
Depreciation Adjustment	(503,690)	0	0	0	0
Direct Revenue Financing of Capital	11,128,900	6,997,470	5,203,380	1,160,760	2,507,290
(Surplus) / Deficit for Year	**1,738,410**	**3,335,040**	**1,714,860**	**(884,040)**	**879,120**
Balance b/f	(9,790,590)	(8,052,180)	(4,717,140)	(3,002,280)	(3,886,320)
Total Balance c/f	**(8,052,180)**	**(4,717,140)**	**(3,002,280)**	**(3,886,320)**	**(3,007,200)**

Appendix H

Housing Capital Investment Plan (5 Year Detailed Investment Plan)

Description	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
General Fund Housing Capital Spend					
Disabled Facilities Grants	576	550	550	550	550
Private Sector Housing Grants and Loans	195	195	195	195	195
Choice Based Lettings IT System	25	0	0	0	0
Total General Fund Housing Capital Spend	**796**	**745**	**745**	**745**	**745**
HRA Capital Spend					
Decent Homes					
Kitchens	236	206	190	655	640
Bathrooms	341	275	305	251	1,036
Central Heating / Boilers	655	2,210	544	2,586	3,536
Insulation / Energy Efficiency	236	200	200	200	200
External Doors	206	169	114	112	351
PVCU Windows	0	0	0	0	6
Wall Structure	462	142	140	134	254
Wall Finishes	257	202	174	383	74
External Painting	0	0	0	0	300
Roof Structure	322	300	300	300	300
Roof Covering	342	334	334	334	334
Chimneys	13	1	0	1	0
Electrical / Wiring	497	561	293	555	932
Smoke Detectors	116	116	116	116	116
Sulphate Attacks	25	102	102	102	102
Major Voids / Major Works	60	0	0	0	0
HHSRS Contingency	100	100	100	100	100
Other Health and Safety Works	210	50	50	50	50
Other External Works	0	0	0	0	0

Description	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Capitalised Officer Fees - Decent Homes	323	305	305	305	305
External Professional Fees	17	17	17	17	17
Decent Homes Planned Maintenance Contractor Overheads	486	546	326	647	916
Decent Homes New Build Allocation	0	261	329	418	428
Total Decent Homes	**4,904**	**6,097**	**3,939**	**7,266**	**9,997**
Other Spend on HRA Stock					
Garage Improvements	788	100	100	100	100
Asbestos Removal	100	50	50	50	50
Disabled Adaptations	878	878	878	878	878
Communal Areas Uplift	296	346	346	346	346
Fire Prevention / Fire Safety Works	100	100	100	100	100
Hard surfacing on HRA Land - Health and Safety Works	250	250	250	250	250
Hard surfacing on HRA Land - Recycling	0	0	0	0	0
Communal Areas Floor Coverings	198	100	100	100	100
Lifts and Door Entry Systems	51	13	13	13	13
Fencing	238	200	200	200	200
Reduction in Discretionary Investment	0	-100	-100	-100	-100
Capitalised Officer Fees - Other HRA Stock Spend	114	114	114	114	114
Other Spend on HRA Stock Planned Maintenance Contractor Overheads	375	213	213	213	213
Total Other Spend on HRA stock	**3,388**	**2,264**	**2,264**	**2,264**	**2,264**
HRA New Build / Re-Development					
Roman Court	6	0	0	0	0
3 Year Affordable Housing Programme	3,583	0	0	0	0
3 Year Affordable Housing Programme (Notional Spend - Land Value)	545	0	0	0	0
New Build - Clay Farm	7,796	2,717	0	0	0
New Build - Homerton	2,753	0	0	0	0
Re-Development - Anstey Way (Land Assembly Only)	1,642	0	0	0	0
Anstey Way - Earmarked Resource towards Re-Development	250	2,860	0	0	0
2015/16 Garage & In-Fill Sites	780	2,233	0	0	0

Description	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
2016/17 In-Fill Sites	0	709	0	0	0
Akeman Street	129	1,844	0	0	0
New Build or Acquisition - Unallocated Retained RTB Receipt Investment	1,322	9,711	12,321	0	0
Right of First Refusal Buy Back	0	0	0	0	0
Grants to Registered Providers	0	0	2,010	3,000	3,000
Total HRA New Build	**18,806**	**20,074**	**14,331**	**3,000**	**3,000**
City Homes Estate Improvement Programme					
City Homes Estate Improvement Programme	52	0	0	0	0
Total City Homes Estate Improvement Programme	**52**	**0**	**0**	**0**	**0**
Sheltered Housing Capital Investment					
Ditchburn Place	2,408	1,796	0	0	0
Total Sheltered Housing Capital Investment	**2,408**	**1,796**	**0**	**0**	**0**
Other HRA Capital Spend					
Orchard Upgrade / Mobile Working	23	0	0	0	0
Stores Reconfiguration	130	0	0	0	0
Cambridge Public Sector Network	23	0	0	0	0
Air Cooling Systems in Area Offices	11	0	0	0	0
Shared Ownership Repurchase	300	300	300	300	300
Commercial and Administrative Property	47	30	30	30	30
Total Other HRA Capital Spend	**534**	**330**	**330**	**330**	**330**
Total HRA Capital Spend	**30,092**	**30,561**	**20,864**	**12,860**	**15,591**
Total Housing Capital Spend at Base Year Prices	**30,888**	**31,306**	**21,609**	**13,605**	**16,336**
Inflation Allowance and Stock Reduction Adjustment for Future Years	0	1,126	1,214	1,508	1,867
Total Inflated Housing Capital Spend	**30,888**	**32,432**	**22,823**	**15,113**	**18,203**
Housing Capital Resources					
Right to Buy Receipts	(302)	(305)	(309)	(312)	(315)
Other Capital Receipts (Land and Dwellings)	0	0	0	0	0

Description	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Notional Land Receipts (New Build Schemes)	(545)	0	0	0	0
Major Repairs Reserve	(4,597)	(16,430)	(9,672)	(10,070)	(10,403)
Direct Revenue Financing of Capital	(11,129)	(6,997)	(5,203)	(1,161)	(2,507)
Other Capital Resources (Grants / Shared Ownership / R&R Funding)	(3,324)	(2,717)	(300)	(300)	(300)
Retained Right to Buy Receipts	(3,653)	(4,840)	(3,696)	0	0
Retained Right to Buy Receipts Passed to Registered Provider	0	0	(2,010)	(3,000)	(3,000)
Disabled Facilities Grant	(576)	(271)	(271)	(271)	(271)
Prudential Borrowing	0	0	(1,362)	0	(1,407)
Total Housing Capital Resources	**(24,126)**	**(31,560)**	**(22,823)**	**(15,114)**	**(18,203)**
Net (Surplus) / Deficit of Resources	6,762	872	0	(1)	0
Capital Balances b/f	**(9,668)**	**(2,906)**	**(2,034)**	**(2,034)**	**(2,034)**
Use of / (Contribution to) Balances in Year	6,762	872	0	(1)	0
Capital Balances c/f	**(2,906)**	**(2,034)**	**(2,034)**	**(2,035)**	**(2,034)**
Other Capital Balances (Opening Balance 1/4/2016)					
Major Repairs Reserve	(3,269)	Fully utilised by 2017/8 as above			
Retained 1-4-1 Right to Buy Receipts	(9,047)	Utilised between 2016/17 to 2018/19 above			
Right to Buy Receipts for Debt Redemption	(5,079)	Retained for future debt repayment			
Total Other Capital Balances	**(17,395)**				

Appendix I

HRA Earmarked & Specific Revenue Funds (£'000)

Repairs & Renewals

	Opening Balance	Contributions	Expenditure to July	Current Balance
General Management	(912.6)	(76.9)	6.7	(982.8)
Special Services	(870.1)	(139.6)	9.2	(1,000.5)
Repairs and Maintenance	(248.8)	(57.6)	0	(306.4)
Total	**(2,031.5)**	**(274.1)**	**15.9**	**(2,289.7)**

Tenants Survey

	Opening Balance	Contributions	Expenditure to July	Current Balance
Tenants Survey	(25.9)	(6.2)	0.0	(32.1)

Debt Set-Aside (Revenue)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(1,901.7)	0.0	0.0	(1,901.7)

HRA Earmarked & Specific Capital Funds (£'000)

Debt Set-Aside (Capital)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(5,079.3)	(600.3)	0.0	(5,679.6)

Major Repairs Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
MRR	(3,269.9)	0.0	0.0	(3,268.9)

Appendix J

Business Plan Key Sensitivity Analysis

Topic	Business Plan Assumption	Key Sensitivity Modelled	Financial Impact
General Inflation	General Inflation using CPI of up to 2.4% for expenditure	Volatility in the economy could lead to an increase in expenditure inflation, particularly whilst rents increases are non-existent for the next 4 years. Assume CPI for expenditure of 3% ongoing.	Inability to set a balanced revenue budget from 2045/46.
Rents Inflation	1% reduction for 4 years, then return to CPI plus 1% for remaining 4 years of 10 year rent settlement followed by CPI plus 0.5%	There is no guarantee that there will be the ability to return to previously assumed rent increase if rents are set legislatively, so assume a rent freeze from 2020/21	Inability to set-aside for redemption of debt from revenue resources. Inability to set a balanced revenue budget from 2031/32.
Direct Payments (Universal Credit)	Bad Debts at 0.56%, 0.84%, then 1.12%	Evidence from the pilot authorities for Direct payment indicates that collection rates may fall from 99% to 95%. Assume bad debts at 5% from 2019/20.	Inability to fund the capital programme and set a balanced revenue budget is brought forward by 3 years.

Note: Key sensitivities are modelled independently to demonstrate the financial impact. Combined they would have a cumulative effect.

Appendix K

Areas of Uncertainty

Housing Revenue Account – Revenue Uncertainties
Self-Financing for the HRA
Future uncertainty exists about the ability to manage the cashflow and service the debt for the HRA in a self-financing environment in light of recent national housing policy changes. The debt cap, over which the HRA is not allowed to borrow, currently remains, although additional borrowing at present represents additional risk. The authority has explored a variety of avenues to persuade government that re-opening the debt may be required.
Right to Buy Sales
The number of sales has increased significantly since April 2012, and a slight decline in interest has been piqued again by the announcements surrounding Pay to Stay, which is likely to result in continued high interest. 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 will exceed the level that the authority is able to support in 70% match funding following national housing policy changes, unless the devolution offer is progressed to deliver £70m of additional investment in HRA homes in the city. At present, sufficient investment required to fulfil the resource held at 30th June 2016 is incorporated into the HRA financial model, but specific sites for all of the investment of the resource have not been identified and approved to proceed. The potential interest that will be payable if the receipts are not utilised within the agreed 3-year period has not been incorporated into the HRA revenue projections.
Ditchburn Place Extra Care
The current care and support contract is operating under temporary arrangements pending decisions by the County Council about the future of this contract at Ditchburn Place. Although technically not an HRA function care is delivered alongside HRA services, and 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.
HRA Commercial Property
Stock condition surveys and investment profiles are still required in respect of the HRA's commercial property portfolio, to ensure that sufficient resource is identified in the Housing Capital Plan to maintain the properties in a lettable condition. The introduction of the higher value voids levy will accelerate the need for this information.
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 still unquantifiable, although indications from earlier adopters are that it will be significant.

Housing Revenue Account – Revenue Uncertainties

HRA New Build

Although the current new build programme is now progressing quite well, delays are still being experienced in respect of some of the earlier projects, which has the potential to further impact negatively upon rental income. If any individual development scheme does not proceed, the initial outlay needs 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.

HRA Area Office Closure

Although now vacated, the lease for the south area office does not expire until January 2020, so the option to sub-let the premises in the short term has been deployed. With the current uncertainty in the economy, and many companies holding off on investment decisions, it may prove difficult to find a sub-lessee at the values required to deliver the saving incorporated into the HRA business plan.

National Rent Policy

The change in national rent policy, with what was previously rent guidance, now being legislation, requires rent reductions of 1% per annum from April 2016 for four years. There is no guarantee that rent increases will be re-introduced at CPI plus 1% after this period, although our financial plans are constructed on this basis.

Compulsion to Sell Higher Value Homes Levy

The Housing and Planning Act allows the introduction of an annual levy, representative of the proportion of high value homes which may become vacant in any one year. Until the regulations surrounding the legislation are released, significant uncertainty exists about the value of the levy and the timing within which payments may be due. In addition to the loss of rental income, the process to dispose of a large number of assets in any one year will be costly and administratively burdensome.

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 although tendered, the finalised costs will not be available until all works have been packaged and sub-contracted. The decision to phase the works also poses additional uncertainty in terms of both the costs and the length of the build. Uncertainty exists with regard the future of care provision at Ditchburn Place, which could necessitate a review of the investment decision altogether.

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. Reduced funding of approximately £0.9m is included in the Housing Capital Programme over the next 9 years to continue to fund this risk-based approach. This will not meet the remedial costs of all sites where sulphate has been identified and 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 additional investment.

Disabled Facilities Grants and Private Sector Housing Grants and Loans

Although the external contribution towards DFG's has increased for 2016/17, the Council element of investment in both DFG's and Private Sector Housing Grants and Loans is now wholly dependent upon the generally available element of right to buy receipts in any year, with funding 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. As government funding is now managed via the Better Care Fund at County level, a County led, county-wide review may also impact this service in the coming months.

Right to Buy Sales and Retained Right to Buy Receipts

Interest in right to buy has seen another peak, with the introduction of 'Pay to Stay' from April 2017. Under the terms of the agreement signed with CLG, the authority is committed to invest the receipts in new homes 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, in light of the recent changes in national housing policy, unless devolution provides a medium term solution. Receipts may be paid over to central government at the end of each quarter, unless there is demonstrable available resource to provide the top up funding required.