APPENDIX D

BUDGET ASSUMPTIONS: HRA BUDGET

The budget is based upon, and includes, the following key assumptions:

Economic

i. For 2014/15, inflation of 1% on pay, inflation on supplies and services where contractually agreed, 5.46% on rental income to match the uplift required for rent restructuring;

ii. Inflation of 1% on pay, and 2% on supplies and services and capital programme expenditure up until 2017/18, with 3.5% in the following years;

iii. Inflation of 3.5% on income for future years (forecast of the Consumer Prices Index + 1%)

iv. An average interest rate on debt of 2.43% in 2014/15 and 2015/16, increasing to 2.5% for 2016/17 and 2.57% for 2017/18. This reflects the known average interest on fixed rate loans and forecasts for variable interest rates used in the Council's Treasury Management Strategy.

Financial

i. HRA Balances to remain at approximately £2.000m until such time as the debt is repaid, thereby reducing debt related costs rather than building up unnecessary levels of reserves;

ii. Surpluses that remain after revenue expenditure, capital expenditure, and debt interest costs are to be allocated to the earmarked reserve for Extra Care Development (ECDR) and the Strategic Reserve (SR). The SR is then available to support the business plan, e.g. for further investment;

iii. 2% allowance for voids in calculation of rental income over plan period. Voids performance is improving which has enabled the Housing Service to achieve an efficiency saving during 2014/15.

iv. A Value for Money (VFM) strategy relating specifically to the Efficiency Programme that is set out within the Housing Service Business Plan Summary, which identifies a saving of £0.395m against the cost of the Housing Service in 2014/15, and projects year on year savings over the life of the plan; and

v. A prudent approach to treasury management with a debt profile balanced between an element of variable rate loans and fixed rate loans in accordance with the Council's Treasury Management Strategy.

Operational

i. The plans for stock investment are in line with the stock condition survey data over a 30 year period;

ii. The delivery of the priorities set out in the HAMS; and

iii. A continuing improvement in the Council's offer to tenants and leaseholders, as well as delivery of estate improvements and wider regeneration aims.

External – Changes to Right to Buy

i. Potential loss of income arising from an increased number of Right to Buy (RtB) sales will not adversely affect the Housing Service Business Plan.

ii. New RTB discounts and proposals for re-investing the capital receipts came into effect from April 2012, which increase the maximum discount available to tenants from £0.034m to £0.075m.

iii. Central Government have increased the discounts in order to incentivise tenants to exercise their Right to Buy, as it is the intention to replace each property sold in this way with a new build property.

iv. The self-financing settlement was based on the average amount of RtB sales in the 4 preceding financial years, and therefore did not take into account the changes to discounts.

v. Government have altered the Housing Pooling regulations to compensate Local Authorities for this change, so that the proportion of debt attributable to those extra properties sold by RtB, as a result of the increased discount, is deducted from the sale receipt prior to the calculation of the amount to be transferred (or "pooled").

vi. The calculation of pooling takes into account the receipts for the Council and Government as modelled into the self-financing calculations. The residual (or "surplus") receipt is retained by the Council, under the strict condition that the Council facilitates new build on a one for one basis for each property sold.

vii. For the additional properties sold as a result of increased discounts there is a resultant loss of rental income, which affects the 30 year cash flows in the Business Plan. However there will also be a reduction in expenditure on each of these properties, which will vary depending upon the archetype and condition of each property.

viii. In the majority of cases, each property will add a financial value to the Business Plan so there is a loss experienced as a result of the extra RtB sales. The compensation for debt attributable to each property mitigates this loss, providing funds that can either be used for debt repayment or capital investment (with no requirement to fund one for one replacements).

ix. As at the second quarter of 2013/14 the Council has useable HRA capital receipts of £1.615m, of which £0.731m is reserved for investment in one for one replacements

x. Careful monitoring of RtB sales will be required. Current projections suggest that these will not have a material impact on the Business Plan, particularly if the number of new build properties exceeds the properties sold. However if annual RtB sales were to make up a significant percentage of the Housing Stock , such that it diminished by 10% or more over the period to 31 March 2018, then this would pose a threat to the surpluses predicted both in the medium to longer term.

xi. If a high rate of sales continued into the medium term the viability of the Council's HRA could be called into question as unit costs would be likely to increase.

Other

i. Future governments will not re-open the debt settlement and increase the amount payable. The Government retained the power to re-open the settlement.