APPENDIX D

BUDGET ASSUMPTIONS: HRA BUDGET

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

Economic

i. For 2017/18, inflation of 1% on pay, inflation on supplies and services where contractually agreed, -1% on rental income in line with the latest Government legislation, and 1% on other (services) income;

ii. Inflation of 1% on pay, inflation on supplies and services where contractually agreed, and 1% on other (services) income, up until 2020/21, with 2% increases in income and expenditure in the following years of the Landlord Business Plan;

iii. Inflation of -1% on rental income up until 2019/20, with a 2% increase in rental income in the following years

iv. An average interest rate on debt of 2.39% in 2017/18, 2.41% in 2018/19, 2.42% in 2019/20 and 2.49% for 2020/21. This reflects the known average interest on fixed rate loans and forecasts for variable interest rates used in the Council's Treasury Management Strategy. From 2021/22 an average interest rate of 3.5% is assumed.

Financial

i. HRA Balances to remain at approximately £2M 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, principal debt repayment and debt interest costs are to be allocated to the earmarked reserve for Independent Living Development (ILDR) and the Strategic Reserve (SR). The SR is then available to support the Business Plan, e.g. for further investment;

iii. 1% allowance for voids in the calculation of rental income over the Plan period. Voids performance is upper quartile, demonstrating the financial value of tenancy sustainment and reduction in re-let periods.

iv. An Efficiency Programme that is set out within the Landlord Business Plan Summary, which identifies a saving of £0.750M against the cost of the Housing Service in 2017/18, 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 Housing Asset Management Strategy (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 Landlord Service Business Plan.

ii. New RtB discounts and proposals for re-investing the capital receipts came into effect from April 2012, with revisions in July 2014, which increase the maximum discount available to tenants from £0.034M to their current level of £0.078M. Further changes in May 2015 mean that tenants can execute their RtB after 3 years, as opposed to 5 years.

iii. Central Government have increased the discounts in order to incentivise tenants to exercise their Right to Buy; 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 level 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 also takes into account the receipts for the Council and Government as modelled into the self-financing calculations. The residual (or "surplus") receipt, after the allowance for debt attributable and receipts modelled in the self-financing settlement, is retained by the Council, under the strict condition that the Council facilitates new social housing 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 2016/17 the Council has useable HRA capital receipts of £7.461M, of which £2.817M is reserved for investment in one for one replacements. The Council has 3 years from the retention of these monies (assessed on a quarterly basis) until it is required under legislation to spend them on new build, with the receipt comprising 30% of the total expenditure. Receipts cannot be matched against schemes in receipt of Homes and Communities Agency (HCA) funding. The Future Investment capital programme is reviewed regularly to assess which schemes the receipts will be matched against, and at what time.

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. If annual RtB sales were to make up a significant percentage of the Housing Stock , such that it diminished by 10% or more (approximately 500 units) over the period to 31 March 2021, then this would pose a threat to the surpluses predicted both in the medium and longer term.

xi. If a high rate of sales continued into the medium term the viability of the Council's HRA Business Plan 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, and in many respects the legislative changes referred to in the main report amount to a re-opening of the settlement, as they impact significantly on the basis of the self financing calculation (e.g. assumptions for rent increases).