EPPING FOREST DISTRICT COUNCIL - HRA FINANCIAL PLAN REVIEW Q2 – OCTOBER 2018

SD SMITH CONSULTANCY LTD

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1. Introduction

1.1 SD Smith Consultancy Ltd has been appointed to provide quarterly reviews of the Council's HRA Financial Plan and advise of potential impacts of legislative and policy changes.

1.2 This review takes account of changes to the key assumptions and investment requirements, where amended, since the January 2018 review and the Council's 2018/19 Financial plan. The last review showed that the Council's full housebuilding programme could be sustained and continuing with future investment in current housing stock at the Decent Homes Standard. In addition, the £31.8million loan due for repayment in March 2022 would require refinancing of between £18.090million and £19.820million, depending if the affordable units at Pyrles Lane were to be purchased, repayable some 3 years later.

1.3 This review does take into account the latest provisional budgets for the actual outturn position for 2017.18 and updated budget position for 2018.19 inclusive of the HRA, Capital and New Build Programme, updated to reflect the bids to Homes England and changes to the depreciation.

1.4 The HRA Financial Plan now has more certainty in respect of the introduction of the High Value Voids. Following the publication of the Housing green paper, this policy has now been effectively abolished to provide Local Authorities to keep resources available with a focus on new delivery of affordable homes. Furthermore, the Prime Minister recently announced that to aid Local Authorities to build, there will be lifting of the debt cap imposed on the HRA.

2. 2017.18 Out-Turn Position

2.1 The table below shows in addition to the out-turn position the 2018/19 budgets to which our modelling is launched:

£'000	Note	Revised 2017.18 Budget	Actual Out-turn 2017.18	Updated 2018.19 Budget
Revenue Expenditure	2.4	26,339	27,683	26,272
Depreciation	2.5	9,786	8,517	8,531
Total Expenditure		36,125	36,200	34,803
Gross Dwelling Rents	2.6	31,537	31,511	31,324
Other Rents & Charges	2.7	3,024	3,113	3,204
Total Income		34,561	34,624	34,528
Surplus (Deficit)		**(£1,564)**	**(£1,576)**	**(£275)**

2.2 The above table shows that the actual out-turn for 2017/18 has a negative variance of only £12,000 from the probable forecast (revised 2017/18 budget).

2.3 The accompanying text for the budgets explains the variances between the 2017.18 probable forecast and commentary with regards to the 2018.19 updated budget.

2.4 Whilst the variance for revenue expenditure is £1.344million, the majority of this is explained by additional contributions to capital expenditure of £991,000 on account the adjustment for depreciation charges. The balance is due to adjustments with regards to IAS 19 and reduced receipts on interest. For 2018/19 the major reason for reductions in revenue expenditure is due to a lesser charge for revenue contributions to capital.

2.5 The depreciation charge was recalculated and resulted in a lesser charge. This does not impact the cash position for the business plan as this reduces the credit to the Major Repairs Reserve, hence why the revenue contribution from the HRA was increased on account of funding the capital programme. The 2018/19 budget will subsequently be reviewed, with a counter adjustment for revenue contributions to capital.

2.6 The rental income is reducing on account of the Government's rent policy of 1% rent reductions per year for four years and the loss of stock through right buy, which is slightly offset by new build rental income and new tenancies being let at formula rent, which explains the reduction of income in 2018/19. Other than this there was a small variance of £26,000 for 2017/18 on account of additional right to buy sales and void performance.

2.7 The service charge income has gone up on account of recoveries of major works for leaseholders and there is a respective increase in other management costs to reflect this.

2.8 This table demonstrates the latest position for HRA capital expenditure.

£'000	**2017.18 Revised**	**2017.18 Out-Turn**	**2017.18 Slippage**	**2018.19 Original**
New House Build Programme	12,856	10,939	1,902	11,399
North Weald Hub/Oakwood Depot	5	20		1,090
Planned Works	5,267	4,516	337	4,879
Replacements, Improvements	4,986	4,980	206	5,418
TOTAL	**23,114**	**20,455**	**2,445**	**22,786**

2.9 The majority of the underspend for capital expenditure for 2017/18 is due to delays within the Council Housebuilding Programme. These costs have been factored into the cashflows for 2018/19 in addition to the original programme.

2.10 The latest modelling has revised cashflows for the Council Housebuilding Programme, based upon the latest cashflows from this month, as follows:

Scheme £'000	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total	As at Jan 17	Variance
Marden Close	49						49	70	21
Faversham	10						10	4	(6)
Phase 1	1,718	(26)					1,692	1,724	32
Phase 2	4,304	4,308	475				9,087	8,935	(152)
Phase 3	4,033	2,491	1,319				7,843	7,160	(683)
Barnfield (s106)	665	92					757	707	(50)
Phases 4-6	128	499	4,351	8,856	8,307	644	22,785	30,053	7,268
Norway Pods	31	329					360	345	(15)
TOTAL	10,938	7,693	6,145	8,856	8,307	644	42,583	48,998	6,415

2.11 There are some variances between what was included in the Financial Plan and the January 2017 review in terms of expenditure. When excluding Phases 4-6, for schemes that are under way or completed, the overall variance is an increase of forecast expenditure of £0.803million. The main variances are in respect of Phases 4 to 6, inclusive of Pyrles Lane, with a combined reduction of £7.268million. The costs for phases 4-6 combined and inclusive of Pyrles Lane is lower than the forecast figures based on latest estimates and reduction in the number of units. This will be under constant review.

3. Assumptions for Future Forecasts on Revenue Income and Expenditure

3.1 In order to project the future income and expenditure streams we need to make some assumptions that will influence these based on existing knowledge, but also some assumed factors.

3.2 As a base principle, all income and expenditure will increase by the assumed RPI (Retail Price Index), which is assumed at 2.5% throughout, except where detailed below. The model is launched matching 2017.18 out-turn and year 2 for 2018.19 updated budgets respectively. Therefore, inflationary factors are applied to the year 2 position from year 3, 2019.18, onwards.

Rental Income

3.3 We have previously referred to the Government's latest social rent policy which came into force in April 2016. The key outputs from this are that existing tenants have started to see their rent reduce by 1% each year over a four-year period, which commenced in April 2016. The only deviation from this is that new tenants will be charged the formula rent for the property rather than the outgoing rent. The formula rent for each property was originally calculated in 2002 with annual inflationary increases of RPI plus 0.5% applied since then, with the exception of 2015.16 which was CPI (Consumer Price Index) plus 1%. In accordance with Government policy at the time, the Council had been converging its current rents to formula rent since 2002, with a capped increase, with the aim of achieving this by 2017.18. However, the latest national rent policy has in effect put an end to this, which has resulted in a loss of key revenue for the HRA.

3.4 Other than existing properties being re-let at formula rents (which will also reduce by 1% over the four year period due to the Government requirement), new build properties will be let at affordable levels with rents increasing by CPI plus 1% after the four year period.

3.5 From April 2020 rents are forecast to increase by CPI plus 1% per year, for 4 years, following the public statement by the Prime Minister at this year's Conservative Party conference. This assumption is therefore used throughout the Plan.

3.6 In 2016.17 there were 46 right to buy (RTB) sales, which is slightly below the 53 witnessed in 2013.14, the year after the re-invigorated RTB policy was introduced. In 2017/2018 a further 42 properties had been sold. We continue to assume that 30 properties will be sold in 2018.19 and then reducing to 25 for the following two years and then gradually reducing on account of increases to house prices and interest rate rises.

3.7 The provision for long-term void loss is set at 0.9% as per previous levels modelled.

3.8 Due to the changes to the Government's welfare reforms in respect of universal credit we have been cautious in our approach to the provision of bad debts. Using the Government's target of implementing direct payments of benefits relating to housing in 2018 we have gradually increased the provision for bad debts to four times the level estimated for 2017.18 and then reduced it over a period of 5 years. This is based on the experiences of pilot authorities and the expectation that tenants with rent arrears in excess of 8 weeks will have their housing benefit diverted back directly to their landlord.

Housing Repairs Fund

3.9 The Council operates a Housing Repairs Fund to account for the day to day, cyclical and planned revenue repairs expenditure. An annual contribution is made to the Fund from the HRA to cover actual expenditure.

3.10 In 2017.18 expenditure levels for repairs were £5.981million against the budgeted contribution of £6million to the Fund, resulting in a slightly reduced closing balance of £1.255million, by £0.005million.

3.11 The budgeted contribution to the Fund for 2018.19 is £6million against forecast expenditure of £6.128million, resulting in a revised closing balance forecast of £1.127million in the Fund.

3.12 The model has annual expenditure of £6.338million per annum (inflated), following discussions with officers, as the basis of actual expenditure moving forward and assumes that the Housing Repairs Fund balance will be fully utilised by 2020.21.

Interest Paid

3.13 Following the self-financing settlement in March 2012 the following loan facilities with the Public Works Loans Board (PWLB) were taken out by the Council to finance the transaction:

Loan £m	Interest Basis	Interest Rate	Maturity
31.800	Variable	0.62%	Mar 2022
30.000	Fixed	3.46%	Mar 2038
30.000	Fixed	3.47%	Mar 2039
30.000	Fixed	3.48%	Mar 2040
30.000	Fixed	3.49%	Mar 2041
33.656	Fixed	3.50%	Mar 2042

3.14 Given that the vast majority of the loan value is fixed the Council is certain of most of the interest that will be charged to the HRA.

3.15 For the variable loan we have estimated that the current interest rate of 0.62% will increase by 1% in 2019.20 (to 1.62%)

This forecast will need to be continually reviewed given the current economic state which threatens a rise in inflation and a subsequent increase in the interest base rate.

3.16 The Council's HRA CFR (accounting debt level) was in fact in a negative position of £31.065million prior to self-financing, due to the capital receipts from right to buy receipts. This means the actual HRACFR is currently £154.391million against the loan total of £185.456million, which results in the HRA being 'over-borrowed'. This arrangement was required to ensure that the General Fund was not adversely affected by the self-financing settlement at the time, which is a need that continues.

Depreciation

3.17 The Council has a depreciation policy based on proper accounting practice and HRA depreciation charges which have increased steeply in recent years due to the adoption by the Government of a componentisation method of depreciation combined with increasing house prices. Transitional measures within the self-financing settlement have been in place since 2012.13, which have allowed for these to be reversed. However, the transitional arrangements came to an end in 2016.17 and depreciation will represent a real charge to the Housing Revenue Account from 2017.18 onwards.

3.18 CIPFA is due to release further guidance on how councils should depreciate their assets based on componentisation techniques, which the Council already does. It is therefore thought unlikely that any new proposals will affect the overall funding available for the HRA, although the details will have to be scrutinised when the further guidance is received to ensure funding for the new build programme is not adversely affected.

Service Enhancements

3.19 Originally, when self-financing was introduced in March 2012, it was estimated that the Council could afford to provide an annual provision of £0.770million for service enhancements throughout the life of the Financial Plan.

3.20 Since 2012 approximately £0.2million of improvements and service enhancements have been subsumed into the management budgets of the HRA for ongoing services. Following the identification that, for the next few years, available resources for the HRA are lower than anticipated against the backdrop of higher capital expenditure and reduced rental income, the residual £0.570million has not been provided for within the latest modelling. However, members have previously approved that, from 2017.18 onwards, £50,000 per annum will continue to fund small improvements above those allowed for in existing budgets.

3.21 We have discussed further in this report the reintroduction of service enhancements when the Plan can afford to do so.

4. Assumptions for Future Forecasts on Capital Expenditure

4.1 The projections for capital expenditure have been split into four distinct areas and are detailed in the sections below:

Short to Medium Term Investment in Existing Stock

4.2 The budgeted forecast has been updated and the next three years' forecast expenditure (2018.19 expenditure will have the slippage identified in 2.8 from 2017/18) is as follows and included within the model (excluding New Build and Acquisitions):

Existing Stock Capital Expenditure £'000	**2018.19**	**2019.20**	**2020.21**	**2021.22**
North Weald / Oakwood Hill Depot	1,090	0	0	0
Heating/Rewiring/Water Tanks	2,305	2,455	2,455	2,455
Windows/Doors	1,041	1,141	1,129	1,129
Roofing	1,282	1,209	1,245	1,245
Other Planned Maintenance	251	251	250	250
Structural Schemes	1,775	1,100	1,100	1,100
Kitchen & Bathroom Replacements	2,300	2,300	2,300	2,300
Garages & Environmental Improvements	563	515	265	265
Disabled Adaptations	450	450	450	450
Other Repairs & Maintenance	220	220	220	220
Capital Service Enhancements	350	0	0	0
Housing DLO Vehicles	60	60	60	60
Less Work on Leaseholder Properties	(300)	(300)	(300)	(300)
TOTAL	**11,387**	**9,401**	**9,174**	**9,174**

Long-Term Investment in Existing Stock

4.3 The Council has a database which estimates the required level of investment in the Housing Stock.

4.4 This database was updated in February 2017 to reflect the review undertaken by officers from EFDC Housing to reduce the level of investment in the stock in response to the Decent Homes Standard being implemented in place of the Council's out-going Modern Homes Standard.

4.5 In summary the current forecast expenditure is as follows:

	HOUSING (HRA) PORTFOLIO 30 YEAR CAPITAL PROGRAMME AVERAGE LIFECYCLES					
		Years 6-10 £000	Years 11-15 £000	Years 16-20 £000	Years 21-25 £000	Years 26-30 £000
1	**Total Planned Maintenance**	**19,321**	**18,840**	**25,309**	**24,485**	**18,589**
	Roofing	2,113	3,808	4,723	4,431	5,693
	Rewiring	7,374	5,670	5,499	6,617	3,794
	Front entrance door replacement	256	290	63	1,914	245
	PVCu Window replacement	165	136	2,962	3,034	215
	Heating and boiler replacement	5,994	4,831	7,594	5,659	5,949
	Asbestos removal	500	500	500	500	500
	Energy efficiency	1,500	750	750	500	500
	Norway House improvements	250	250	250	250	250
	Balcony Resurfacing	500	500	500	500	500
	Door Entry Security	249	122	242	328	276
	Ventilation	200	200	200	200	200
	Communal water tank replacement	131	410	867	431	469
	Lift Improvements	90	1,375	1,160	120	-
2	**Structural Schemes**	**3,500**	**3,750**	**3,750**	**3,750**	**3,750**
3	**Cyclical Maintenance**					
3	**Small Capital Works**	**3,760**	**3,762**	**3,750**	**3,762**	**3,762**
4	**Cost reflective improvements**	**8,642**	**10,774**	**8,015**	**11,315**	**8,227**
	Kitchen & Bathroom renewals	8,642	10,774	8,015	11,315	8,227
5	**Non-cost-reflective repairs**	**1,500**	**1,500**	**1,500**	**1,500**	**1,500**
6	**Disabled Adaptations**	**2,100**	**2,205**	**2,315**	**2,431**	**2,553**
7	**Contingency**	**500**	**500**	**500**	**500**	**500**
8	**Other Repairs and Maintenance**	**175**	**175**	**175**	**175**	**175**
9	**Housing DLO Vehicles**	**250**	**250**	**250**	**250**	**250**
	TOTAL EXPENDITURE	**39,749**	**41,757**	**45,565**	**48,168**	**39,307**

4.6 These costs have been modelled into the Financial Plan with inflationary increases and an assumed 2.5% recovery for leaseholders.

4.7 In previous iterations and reviews of the HRA Financial Plan, additional service enhancements over and above the £0.57million detailed in Section 3.20 have been factored in to demonstrate the additional resources available to improve both services and the stock. The base iteration of this model excludes any of these provisions and only includes those contained within the existing capital budgets in the tables in Sections 2.9 and 4.2.

<u>New Build Programme</u>

4.8 The latest estimates for the new build programme have been detailed in 2.10

4.9 The figures include the anticipated fees as a result of no longer having a Development Agency Contract with a housing association and the Council is undertaking a course of action that involves the direct contract with architectural support and directly employed staff. These on-costs will come within those already included as fees above and will also materialise with some savings, but which cannot be fully confirmed at this time.

5. Funding the Forecast Capital Expenditure and Its Implications

5.1 The rental income from the HRA covers the key operating expenditure for management, day to day repairs and financing costs. In addition, a depreciation charge is made, which credits the Major Repairs Reserve, which in turn funds the Capital Programme.

5.2 The HRA also makes a revenue contribution to capital expenditure, which in effect is a balancing charge to fund the annual capital expenditure after other resources have been accounted for.

5.3 For the projections moving forward, the revenue contribution continues to be a balancing charge, however, it is restrained by ensuring that the HRA balances do not go below the agreed £2million minimum balance. Given that the modelling is long-term, the minimum balance is increased by inflation from year 6 in the Plan.

5.4 The Council also holds a Self-Financing Reserve, with the intention of building up balances within it that would be sufficient to repay the loans identified in Section 3.13. Due to increased levels of capital expenditure for the next few years against the backdrop of reduced revenue, we have modelled the maximum contribution possible up to year 6 (2021.22) to provide for balances to repay the £31.8million maturing that year. As expected, balances are projected to reach £7.552million, which is less than the £31.8million required; therefore, along with available balances within the Major Repairs Reserves, refinancing of £16.000million will be required, which modelling demonstrates can be repaid within 3 years. The additional borrowing is lower than the £18.1million projected in the financial plan on the basis of reduced expenditure on new build.

5.5 The Council has received certain grants and receipts from section 106 agreements which are being used to fund its capital programme. These have been fully accounted for in the first two years of the Plan totalling £2.990million. In addition, there are still significant agreed levels of S106 financial contributions due to the Council, amounting to around £3.1million, to be used for the Housebuilding Programme in the future, once specific “trigger points” are reached for the various private developments. As and when these S106 contributions are received, it will reduce the amount of funding required from the existing Capital Programme by an equivalent amount. However, it should be noted that if a development does not go ahead, or if the level of S106 financial contribution is subsequently reduced through re-negotiation, this total amount would reduce accordingly.

Right to Buy Sales

5.6 Since the reinvigoration of the Government's Right to Buy policy, the Council has sold in excess of 230 properties against Government assumptions (based on the self-financing settlement) of 72 properties, due to the increase of discounts available.

5.7 The gross receipts are then separated into different categories for their treatment, guided by the policy and discussed below:

5.8 The first call on the receipts is the allowable (or attributable) debt which the authority keeps, derived from the level ascertained from the self-financing settlement for the expected number of sales. The receipts can either be distributed to the HRA or the General Fund. The Council's Cabinet has agreed that an equivalent value to 30% of 'assumed debt' within the self-financing settlement can be used for funding new build within the HRA with the balance going to the General Fund to protect against any future measures that may affect the Council, which are discussed in Section 5.10. For 2017.18 and three years following 2018.19 we estimate that £0.104million, each year, will be available.

5.9 The Council is also allowed to retain £1,300 per property sold to cover administration costs and this is assumed to be accounted for within existing HRA budgets, offsetting expenditure incurred in the delivery of the service.

5.10 Before self-financing, local authorities were able to retain 25% of net Right to Buy receipts, with the remaining balance returned to Government. This is still accounted for within the treatment of the receipts but based on a pre-determined value by the Government. For Epping Forest, this 25% factor is equal to £0.340million and is used for General Fund purposes. If the actual number of Right to Buy sales in future years falls below the pre-determined level within the self-financing settlement then this level of receipt is at risk to the Council's General Fund, hence the arrangement set out in Section 5.8 above.

5.11 The next call on the receipt is the amount that the Council can retain to help fund Right to Buy 'buy-backs' that were originally purchased within 10 years of the RTB sale. The formula allows, with quarterly restrictions, 50% of the amount that was spent by authorities on these 'buy-backs'.

5.12 Finally, if a balance remains within the quarter, this is transferred to a '1-4-1' reserve. The Government stipulates, as part of the signed agreement with EFDC, that receipts have to be used within 3 years of accruing and have to be spent on funding a maximum of 30% on providing or acquiring new homes. However, the Government has recently issued a Consultation Paper, with proposals to amend and loosen these restrictions.

5.13 We have maximised the use of Right to Buy receipts throughout the modelling to ensure that 30% of new build expenditure levels has been fully utilised. Due to the re-profiling of new build expenditure, it means that, following Cabinet approval, £0.181million of '1-4-1' receipts have been returned to the Government, as insufficient eligible expenditure was achieved by £0.603million.

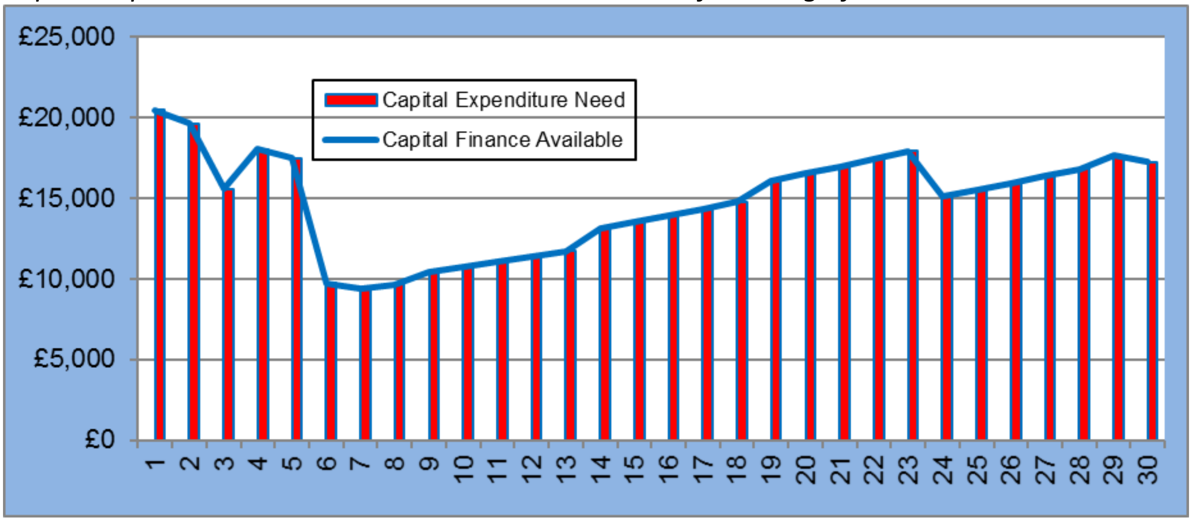
5.14 Right to Buy levels have been assumed to remain at 30 per year (for 2018.19) and then gradually further reduce, albeit slowing over the next 3 years. We will carefully monitor separate forecasts in terms of Right to Buy numbers, though other factors may well see a decrease in sales as detailed further in this Quarter 2 Review. Whilst this will increase the level of '1-4-1' receipts and attributable debt allocations, the longer-term position will see a negative impact in terms of future revenue through loss of rents.

5.15 Depending on future right to buy numbers it could well be possible that receipts will have to be paid to Government to avoid interest penalties if the Council Housebuilding Programme does not extend past Phase 6. This could be for receipts accrued from sales from Q2 2018.19.

The Capital Funding Forecast

5.16 The graph below demonstrates the capital forecast expenditure for the existing Capital Programme, new build programme, revised expenditure as identified in Sections 4.2 to 4.5 and the future investments needs, with inflation applied, from Section 4.5.

Capital Expenditure Forecasts – Base Position With Refinancing of £16.0m in Year 6



5.18 The £31.8million loan is part repaid in year 6 with a net-refinancing needed of £16.0million, which can be repaid within a 3-year period.

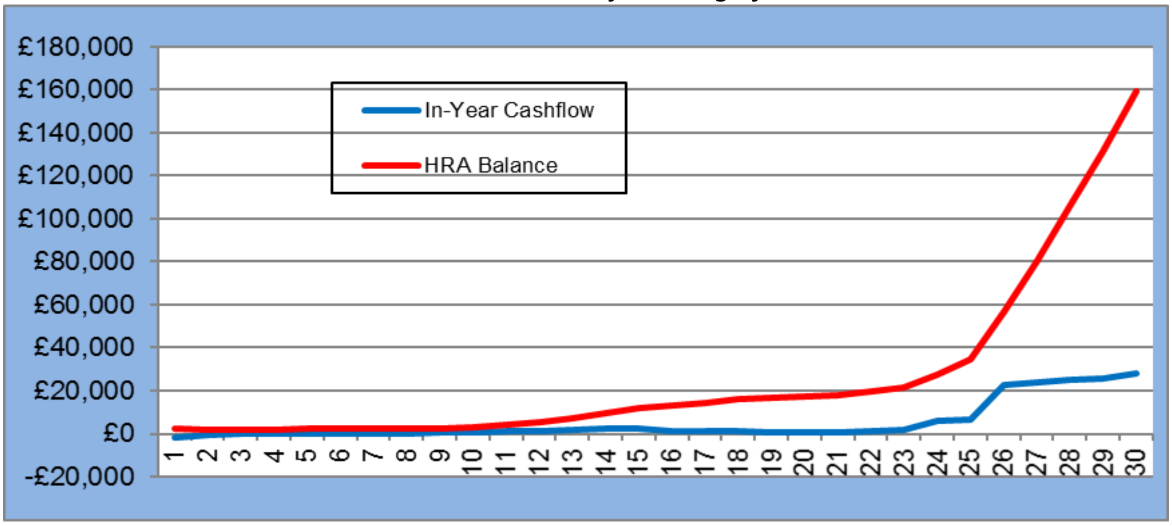
6. Forecast HRA Balances and Future Resources Available

6.1 This section seeks to ensure that the HRA maintains its minimum balance of £2million, allowing for inflation moving forward.

6.2 To ensure that the HRA has sufficient resources available to repay the loans as they fall due, the Self-Financing Reserve is utilised to make annual contributions from year 7 onwards, with a required annual increase applied to the initial contribution to ensure a balance is available to repay the final loan in year 26.

6.3 The graph below shows the balances that will begin to accrue within the HRA once the refinancing loan of £16.0million is repaid and sufficient resources have been placed in the Self-Financing Reserve to repay all the other HRA loans from the PWLB.

Forecast HRA Balances – Base Position With Refinancing of £16.0m in Year 6



6.4 From year 26, after repayment of the existing debt profile, the HRA's balances substantially increase to over £159million as there is no longer a contribution required to the Self-Financing Reserve, nor interest payments.

6.5 We have therefore assessed, as a way of identifying available resources, the value of service enhancements that could be introduced in the latter stages of the Plan. This includes a comparison against the January 2018 Review and Financial Plan.

	January 2018 Review & Financial Plan Total Expenditure In-Period (Non-Inflated)	**October 2018 Review Total Expenditure In-Period (Non-Inflated)**
Years 6-10	£2.900million	£0.875million
Years 11-15	£5.545million	£2.475million
Years 16-20	£4.800million	£2.900million
Years 21-25	£8.350million	£10.650million
Years 26-30	£51.725million	£57.800million
TOTAL	**£73.225million**	**£74.700millon**

6.6 In overall terms there has been little impact to the service enhancements over the period of the plan. However, we have been able to more accurately forecast these in the medium term by using Major Repair Balances that had previously not been utilised.

6.7 The potential for incorporating provision within the Plan for service enhancements towards the latter stages, meeting any enhanced Decent Homes Standard as proposed in the Government's Social Housing Green Paper, or re-implementing the Council's Modern Homes Standard can be considered in future reviews of the Financial Plan.

7. Summary and Other Considerations

7.1 The HRA projections based on the assumptions within the report demonstrate that, in the long term, the HRA is viable in that:

- The HRA remains above the minimum £2million (inflated) balance throughout the period of the Plan;
- The HRA will be debt free and return to its prior position of a negative balance on the HRA CFR of £31.065million; and
- There are no unfunded capital works.

7.2 The HRA in the latter years can also afford to make provision for service enhancements and improvements, in addition to the required levels of investment in the stock and new build, of £75million at today's prices.

7.3 There are, however, policy changes which are in the recent Housing and Planning Act 2016 that will have implications to the HRA, not least the expectation that vacant Council homes are sold to fund the required annual levy payment to the Government, which the recently released Green Paper seeks now repeal this (see below).

<u>MoHC&GL Housing Green Paper – A New Deal for Social Housing</u>

7.4 A key result of this paper is that the high value void policy is to repealed at the earliest opportunity to give certainty to local authorities in respect of providing financial capacity in order to increase the supply of new affordable homes.

7.5 The paper also raises questions over the Decent Homes Standard, of which the stock investment is currently based upon, with a possibility of this being consulted upon with a view to improving the level of investment. Therefore, this would have implications for the business plan moving forward.

<u>MoHC&GL Consultation Paper – Use of Receipts from Right to Buy Sales</u>

7.6 This paper has been published to seek views on:

- Extending the spend period from 3 years to 5 years for current receipts received to date
- The possibility of increasing the 30% allocation to 50% of build costs for properties let at social rents where a case for a clear need for lower rents is demonstrated

- A potential cap on acquisitions, which for Epping could be £167,000 on future acquisitions if 1-4-1 receipts are to be utilised
- The use of receipts for shared ownership properties
- Ease of transferring land from the General Fund to the HRA at nil cost
- Allocations of receipts to a wholly owned organisation

7.7 Most of the above should be welcomed by Epping, though the cap on acquisitions may cause problematic if receipts need to be spent in haste.

Simon Smith

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October 2018

Appendix 1

Key Assumptions

1. All rents decreasing by 1% for 1 years commencing 2019.20
2. Rents increasing by CPI plus 1% after this period
3. 6% of tenancies (on a reducing balance) moving to formula rent
4. Void levels 0.9% throughout
5. Bad Debts Provision to match budgets then increase to 1% then reduce to 0.5% (current budget 0.25%)
6. Right to Buy levels at 30 per year for the next year, then 25 for 2 years then 20 reducing to 5 per year in the last 5 years of the plan
7. Un-pooled Right to Buy Receipt (up to Government cap) utilised by General Fund
8. 30% of the Assumed Debt element of receipt used to fund new homes
9. New Build of 210 properties years 1 to 5 (inclusive of s106 properties)
10. Service Charge income increasing by RPI only
11. Non Dwelling Rents (Garages) increasing by RPI only
12. Norway House Rents increasing by RPI only
13. Contributions from the General Fund (for service) increasing by RPI only
14. Management Costs increasing by RPI only
15. Repair Costs increasing by RPI only (after Repairs Fund adjustments)
16. Capital Improvement Costs increasing by RPI plus 0.25% from year 6
17. Depreciation charge increasing by 1% per annum
18. Base rate for variable interest calculations increasing by 1%

Appendix 2 – HRA Forecasts

HOUSING REVENUE ACCOUNT PROJECTIONS
Epping Forest DC

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32
£'000	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
INCOME:															
Gross Rental Income	31,543	31,533	31,867	32,948	34,182	35,210	36,221	37,260	38,327	39,422	40,547	41,703	42,889	44,108	45,374
Void Losses	-32	-268	-287	-297	-309	-318	-327	-337	-346	-356	-367	-377	-388	-399	-410
Charges for Services & Facilities	2,090	1,954	2,003	2,053	2,104	2,157	2,211	2,266	2,323	2,381	2,440	2,501	2,564	2,628	2,694
Non-Dwelling Rent	855	876	898	920	943	967	991	1,016	1,041	1,067	1,094	1,121	1,149	1,178	1,208
Contribution From General Fund	357	374	383	393	403	413	423	434	445	456	467	479	491	503	516
Total Income	**34,813**	**34,469**	**34,865**	**36,017**	**37,324**	**38,429**	**39,519**	**40,639**	**41,789**	**42,969**	**44,182**	**45,427**	**46,706**	**48,018**	**49,381**
EXPENDITURE:															
Supervision & Management - General	-6,082	-5,976	-6,125	-6,279	-6,435	-6,597	-6,762	-6,931	-7,105	-7,282	-7,464	-7,651	-7,842	-8,038	-8,239
Supervision & Management - Special	-3,832	-3,753	-3,847	-3,943	-4,042	-4,143	-4,246	-4,352	-4,461	-4,573	-4,687	-4,804	-4,924	-5,047	-5,174
Other Management Expenditure	-974	-760	-779	-798	-818	-839	-860	-881	-903	-926	-949	-973	-997	-1,022	-1,048
Provision for Bad/Doubtful Debts	-33	-100	-159	-243	-334	-260	-267	-275	-192	-197	-203	-209	-215	-221	-227
Contribution to Repairs Fund	-6,000	-6,000	-6,100	-5,366	-6,496	-6,679	-6,901	-7,128	-7,325	-7,550	-7,739	-7,932	-8,131	-8,334	-8,542
Total Revenue Expenditure	**-16,921**	**-16,589**	**-17,010**	**-16,629**	**-18,126**	**-18,517**	**-19,037**	**-19,568**	**-19,986**	**-20,528**	**-21,042**	**-21,569**	**-22,109**	**-22,662**	**-23,230**
Interest Payable on Loans	-5,510	-5,555	-6,022	-6,022	-6,178	-5,828	-5,828	-5,588	-5,348	-5,348	-5,348	-5,348	-5,348	-5,348	-5,348
Treasury Management Expenses	-61	-64	-66	-67	-69	-71	-72	-74	-76	-78	-80	-82	-84	-86	-88
Interest on Receipts & Balances	218	178	460	747	813	752	813	766	727	841	969	1,106	1,252	1,399	1,687
Net Depreciation	-8,517	-8,531	-8,531	-8,531	-8,634	-8,721	-8,808	-8,897	-8,986	-9,076	-9,167	-9,259	-9,352	-9,446	-9,541
Net Operating Income	**4,022**	**3,908**	**3,696**	**5,515**	**5,130**	**6,044**	**6,586**	**7,279**	**8,120**	**8,780**	**9,514**	**10,275**	**11,065**	**11,875**	**12,861**
APPROPRIATIONS:															
FRS 17 /Other HRA Reserve Adj	583	-102		-107	-110	-113	-115	-118	-121	-124	-127	-131	-134	-137	-141
Self Financing Reserve	0	0	-3,500	-5,400	-4,248	-5,000	-5,900	-6,000	-6,260	-6,532	-6,815	-7,111	-7,420	-7,742	-8,078
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure Charged to Revenue	-6,171	-4,130	0	0	-563	-805	-545	-741	-1,422	-1,639	-1,853	-2,097	-2,347	-3,666	-3,955
Total Appropriations	**-5,588**	**-4,232**	**-3,500**	**-5,507**	**-4,921**	**-5,917**	**-6,560**	**-6,859**	**-7,804**	**-8,296**	**-8,796**	**-9,339**	**-9,901**	**-11,545**	**-12,174**
ANNUAL CASHFLOW	**-1,566**	**-324**	**196**	**7**	**209**	**127**	**26**	**419**	**316**	**485**	**718**	**936**	**1,164**	**330**	**687**
Opening Balance	3,853	2,287	1,963	2,055	2,062	2,271	2,398	2,424	2,843	3,160	3,644	4,362	5,298	6,462	6,792
Closing Balance	**2,287**	**1,963**	**2,159**	**2,062**	**2,271**	**2,398**	**2,424**	**2,843**	**3,160**	**3,644**	**4,362**	**5,298**	**6,462**	**6,792**	**7,480**
Other HRA Reserve Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Self Financing Reserve	12,720	6,975	6,722	11,552	0	5,000	10,900	900	7,160	13,692	20,508	27,619	35,039	42,781	50,858
HRA New Build Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

HOUSING REVENUE ACCOUNT PROJECTIONS
Epping Forest DC

Year	2032.33	2033.34	2034.35	2035.36	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44	2044.45	2045.46	2046.47
£'000	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
INCOME:															
Gross Rental Income	46,689	48,040	49,430	50,857	52,345	53,896	55,492	57,133	58,822	60,564	62,361	64,210	66,113	68,071	70,086
Void Losses	-422	-434	-447	-460	-473	-487	-502	-516	-532	-548	-564	-580	-598	-615	-634
Charges for Services & Facilities	2,761	2,830	2,901	2,973	3,048	3,124	3,202	3,282	3,364	3,448	3,534	3,623	3,713	3,806	3,901
Non-Dwelling Rent	1,238	1,269	1,300	1,333	1,366	1,400	1,435	1,471	1,508	1,546	1,584	1,624	1,665	1,706	1,749
Contribution From General Fund	528	542	555	569	583	598	613	628	644	660	676	693	711	728	747
Total Income	**50,794**	**52,247**	**53,739**	**55,273**	**56,869**	**58,531**	**60,240**	**61,998**	**63,806**	**65,670**	**67,593**	**69,570**	**71,604**	**73,696**	**75,849**
EXPENDITURE:															
Supervision & Management - General	-8,445	-8,656	-8,873	-9,094	-9,322	-9,555	-9,794	-10,039	-10,289	-10,547	-10,810	-11,081	-11,358	-11,642	-11,933
Supervision & Management - Special	-5,303	-5,435	-5,571	-5,711	-5,853	-6,000	-6,150	-6,303	-6,461	-6,623	-6,788	-6,958	-7,132	-7,310	-7,493
Other Management Expenditure	-1,074	-1,101	-1,128	-1,156	-1,185	-1,215	-1,245	-1,276	-1,308	-1,341	-1,375	-1,409	-1,444	-1,480	-1,517
Provision for Bad/Doubtful Debts	-234	-240	-247	-254	-262	-270	-278	-286	-294	-303	-312	-321	-331	-340	-351
Contribution to Repairs Fund	-8,756	-8,975	-9,199	-9,429	-9,665	-9,906	-10,154	-10,408	-10,668	-10,935	-11,208	-11,488	-11,776	-12,070	-12,372
Total Revenue Expenditure	**-23,811**	**-24,407**	**-25,019**	**-25,645**	**-26,287**	**-26,946**	**-27,620**	**-28,312**	**-29,021**	**-29,748**	**-30,493**	**-31,257**	**-32,040**	**-32,843**	**-33,665**
Interest Payable on Loans	-5,348	-5,348	-5,348	-5,348	-5,348	-5,339	-4,301	-3,260	-2,216	-1,168	0	0	0	0	0
Treasury Management Expenses	-90	-93	-95	-97	-100	-102	-105	-107	-110	-113	-116	-119	-122	-125	-128
Interest on Receipts & Balances	1,869	2,055	2,245	2,439	2,725	2,655	2,301	1,967	1,691	1,445	1,536	1,993	2,474	2,977	3,511
Net Depreciation	-9,636	-9,733	-9,831	-9,929	-10,029	-10,130	-10,231	-10,334	-10,438	-10,543	-10,649	-10,756	-10,864	-10,973	-11,083
Net Operating Income	**13,777**	**14,720**	**15,692**	**16,692**	**17,830**	**18,670**	**20,283**	**21,951**	**23,712**	**25,544**	**27,871**	**29,431**	**31,052**	**32,733**	**34,484**
APPROPRIATIONS:															
FRS 17 /Other HRA Reserve Adj	-144	-148	-151	-155	-159	-163	-167	-171	-176	-180	-184	-189	-194	-199	-204
Self Financing Reserve	-8,428	-8,794	-9,176	-9,574	-9,989	-10,423	-10,875	-11,347	-11,839	-12,353	0	0	0	0	0
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure Charged to Revenue	-4,249	-4,589	-4,937	-6,106	-6,488	-6,838	-7,200	-7,573	-4,638	-4,944	-5,261	-5,588	-5,925	-6,675	-6,163
Total Appropriations	**-12,821**	**-13,530**	**-14,264**	**-15,835**	**-16,636**	**-17,424**	**-18,242**	**-19,092**	**-16,653**	**-17,477**	**-5,445**	**-5,777**	**-6,119**	**-6,873**	**-6,367**
ANNUAL CASHFLOW	**956**	**1,190**	**1,427**	**857**	**1,194**	**1,246**	**2,041**	**2,859**	**7,059**	**8,066**	**22,426**	**23,654**	**24,933**	**25,860**	**28,117**
Opening Balance	7,480	8,435	9,625	11,052	11,909	13,103	14,349	16,390	19,249	26,308	34,374	56,800	80,454	105,388	131,247
Closing Balance	**8,435**	**9,625**	**11,052**	**11,909**	**13,103**	**14,349**	**16,390**	**19,249**	**26,308**	**34,374**	**56,800**	**80,454**	**105,388**	**131,247**	**159,365**
Other HRA Reserve Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Self Financing Reserve	59,287	68,081	77,256	86,830	96,819	77,242	58,117	39,464	21,303	0	0	0	0	0	0
HRA New Build Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

HOUSING CAPITAL PROJECTIONS
Epping Forest DC

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32
£'000	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
EXPENDITURE:															
New Build Lifecycle & Planned	0	0	0	0	0	-11	-41	-71	-83	-108	-122	-160	-196	-213	-243
Existing Stock Lifecycle & Planned	-8,767	-11,420	-8,891	-8,664	-8,664	-8,582	-8,818	-9,060	-9,783	-10,052	-10,329	-10,613	-10,905	-12,259	-12,596
Disabled Adaptations	-594	-450	-450	-450	-450	-431	-441	-452	-487	-499	-511	-524	-537	-578	-593
Other Capital Expenditure	-155	-68	-60	-60	-60	-51	-53	-54	-55	-57	-58	-59	-61	-62	-64
Acquisitions Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Build Development	-10,939	-7,693	-6,145	-8,856	-8,307	-644	0	0	0	0	0	0	0	0	0
Service Enhancements/Improvements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-20,455**	**-19,631**	**-15,546**	**-18,030**	**-17,481**	**-9,719**	**-9,353**	**-9,638**	**-10,408**	**-10,715**	**-11,020**	**-11,356**	**-11,699**	**-13,112**	**-13,496**
FUNDING:															
Major Repairs Reserve	9,336	7,368	9,771	14,624	14,351	8,721	8,808	8,897	8,986	9,076	9,167	9,259	9,352	9,446	9,541
Right to Buy Receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRA CFR Borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	1,681	179	179	179	75	0	0	0	0	0	0	0	0	0	0
Right to Buy 1-4-1 Reserves	3,267	2,209	1,844	2,657	2,492	193	0	0	0	0	0	0	0	0	0
Self Financing Reserve	0	5,745	3,753	570	0	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	6,171	4,130	0	0	563	805	545	741	1,422	1,639	1,853	2,097	2,347	3,666	3,955
Total Capital Funding	**20,455**	**19,631**	**15,546**	**18,030**	**17,481**	**9,719**	**9,353**	**9,638**	**10,408**	**10,715**	**11,020**	**11,356**	**11,699**	**13,112**	**13,496**
In-Year Net Cashflow	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cumulative Position	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

MRR Account:															
Opening Balance	12,705	11,886	13,050	11,810	5,717	0	0	0	0	0	0	0	0	0	0
Net Contribution from Depreciation	8,517	8,531	8,531	8,531	8,634	8,721	8,808	8,897	8,986	9,076	9,167	9,259	9,352	9,446	9,541
Use of Reserve to Capital	-9,336	-7,368	-9,771	-14,624	-14,351	-8,721	-8,808	-8,897	-8,986	-9,076	-9,167	-9,259	-9,352	-9,446	-9,541
Contribution to HRACFR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing Balance	**£11,886**	**£13,050**	**£11,810**	**£5,717**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**

HOUSING CAPITAL PROJECTIONS
Epping Forest DC

Year	2032.33	2033.34	2034.35	2035.36	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44	2044.45	2045.46	2046.47
£'000	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**	**28**	**29**	**30**
EXPENDITURE:															
New Build Lifecycle & Planned	-270	-334	-397	-426	-480	-492	-504	-517	-530	-543	-557	-571	-585	-600	-615
Existing Stock Lifecycle & Planned	-12,942	-13,298	-13,664	-14,852	-15,260	-15,680	-16,111	-16,554	-13,650	-14,026	-14,411	-14,808	-15,215	-16,034	-15,592
Disabled Adaptations	-608	-623	-638	-687	-704	-722	-740	-758	-816	-837	-857	-879	-901	-923	-946
Other Capital Expenditure	-66	-67	-69	-71	-72	-74	-76	-78	-80	-82	-84	-86	-88	-90	-93
Acquisitions Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Build Development	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Service Enhancements/Improvements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-13,885**	**-14,322**	**-14,768**	**-16,036**	**-16,517**	**-16,968**	**-17,431**	**-17,908**	**-15,076**	**-15,487**	**-15,909**	**-16,343**	**-16,789**	**-17,647**	**-17,246**
FUNDING:															
Major Repairs Reserve	9,636	9,733	9,831	9,929	10,029	10,130	10,231	10,334	10,438	10,543	10,649	10,756	10,864	10,973	11,083
Right to Buy Receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRA CFR Borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Right to Buy 1-4-1 Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Self Financing Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	4,249	4,589	4,937	6,106	6,488	6,838	7,200	7,573	4,638	4,944	5,261	5,588	5,925	6,675	6,163
Total Capital Funding	**13,885**	**14,322**	**14,768**	**16,036**	**16,517**	**16,968**	**17,431**	**17,908**	**15,076**	**15,487**	**15,909**	**16,343**	**16,789**	**17,647**	**17,246**
In-Year Net Cashflow	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cumulative Position	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

MRR Account:															
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Contribution from Depreciation	9,636	9,733	9,831	9,929	10,029	10,130	10,231	10,334	10,438	10,543	10,649	10,756	10,864	10,973	11,083
Use of Reserve to Capital	-9,636	-9,733	-9,831	-9,929	-10,029	-10,130	-10,231	-10,334	-10,438	-10,543	-10,649	-10,756	-10,864	-10,973	-11,083
Contribution to HRACFR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing Balance	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**