Epping Forest District Council

Impact and Funding of Increasing the Provision of HRA Affordable Homes

March 2014

Introduction

In conjunction with our ongoing appointment to update the HRA Business Plan on a regular basis we have been requested to identify the impact and funding options for delivering additional affordable homes.

As a starting position we have used the last iteration of the HRA Business Plan presented to officers in which to assess the resources required and the options available to meet these.

In summary the Plan was based on delivering:

New Build Delivery:	Homes	Delivery by:	Cost:
Phase 1	23	Sept 2015	£4.087million
Phase 2	20	February 2016	£3.677million
Phase 3-6	80	Fy 2020.21	£11.746millon
Total	**123**		**£19.510million**

Funded By:

Right to Buy Receipts (1-4-1) Replacement (Projected)	£3.697million
Various (received) s106 monies	£0.668million
Land Sales	£0.087million
Area Growth Fund	£0.090million
Total	**£4.542million**

The balance of the cost of new build works is scheduled to be funded by the revenue resources from the rental stream within the HRA, without the need for borrowing or external grants. There is the potential for further contributions from s106 sites, where s106 agreements have been signed but development has not (yet) commenced, but at this stage they are not included.

In addition to providing new affordable homes the HRA can afford to contribute surplus funds for service enhancements, which has already been utilised since the introduction of self-financing. We have frequently revisited the availability of such funds and at present, based on the current resources allocated to the

Housebuilding Programme, these stand at (inclusive of the unallocated £0.570million currently already provided for):

Projected Service Enhancements (excluding inflation)

Service Enhancements Per Year	Yrs 3-6 £m	Yrs 7-11 £m	Yrs 12-16 £m	Yrs 17-21 £m	Yrs 22-30 £m	Total £m
Revised Forecast	1.420	3.870	7.570	8.570	9.570	**191.860**

(NB - Year 3 = 2015/16)

The Considerations

This briefing seeks to identify the costs and funding available to achieve the following:

Stage 1: The scheme identified as Phase 2 is currently estimated within the HRA Business Plan to provide 20 homes. The Council is currently considering increasing this number, with the final number to be agreed by members. Two scenarios being considered by the Development Team is a development of either 42 or 56 homes for Phase 2, which is the number of homes used for the purposes of this report. However, further financial scenarios can be provided for different numbers of new homes if the Council wishes.

From the latest figures provided by East Thames (inclusive of fees):

- a 42 home development is estimated to cost £6.857million, an increase of £3.180million (without provision for inflation).
- or a 56 home development is estimated to cost £8.572million, an increase of £4.895million (without provision for inflation).

Stage 2: Phases 3 to 6 also currently have an estimated 20 homes per phase, in which we test in this report the capacity for an increase to 30 homes per phase (120 in total instead of 80) which will increase the costs by £5.873million (excluding inflation).

Stage 3: A new set of phases (7 to 10) delivering 30 homes per phase (120 in total) with a new cost of £17.619million (again without provision for inflation).

The Funding Options

Borrowing: Currently the HRA debt (HRA CFR) stands at £153.575million against a Government imposed cap of £185.475million. Therefore this provides £31.9million of borrowing capacity, which can easily be obtained through the Public Works Loan Board (PWLB).

Advantages

Current interest rates are low and there is immediate borrowing capacity.

Disadvantages
The annual cost of borrowing c£27million would be c£1.2million per annum based on a 30 year loan facility. This would be partially offset by net rental income. However if the loan period was reduced the interest rates would mirror this.

Replacement 1-4-1 Balances	We have already utilised the estimated balance by the end of 2014.15 for the current new build programme. However if a further 10 properties were sold, under right to buy, this could release an estimated additional £0.727million for increasing the supply of homes. This is based on average values to date. Advantages This would have no adverse effects to the Business Plan and would save returning receipts to the Government with interest. Disadvantages It can only fund 30% of the cost of new build and all balances would have to be utilised by June 2018 and rely upon increased sales.
HRA Reserves:	The Business Plan is currently set to ensure that balances do not fall below £3million, which equates to £465 per unit. If this were to be reduced to c£300 per unit then the minimum balance could be reset to £2million, thus releasing £1.0million towards funding additional new homes. We are aware of authorities who use much lower levels of minimum balance, as low as £175 per unit. Advantages This would have little impact to the HRA Business Plan and is immediately available. Disadvantages There would be a minor reduction in interest receivable and the HRA is exposed to a greater revenue risk in terms of unforeseen revenue expenditure such as a one-off increase in repairs or adverse accounting adjustment.
Debt Repayment:	The HRA currently has a self-financing reserve in which an annual contribution of £3.180million is budgeted to be made in order to repay a loan facility of £31.8million in Year 2021.22. The profile of contributing to this reserve could be altered in which to release funds in earlier years by increasing the contribution in the years closer to 2021.22 in order to still repay the loan. Advantages Immediate resources are available from the reserve (£9.693million including 2014.15 contribution).

	<u>Disadvantages</u> Unforeseen expenditure in future years could prevent the higher payments to the reserve in later years in order to have sufficient funds to repay the £31.8million loan facility.
S106 Receipts:	As part of our HRA Business Plan review we are aware that seven sites have signed Section 106 Agreements which, if they all come to fruition and the trigger points for payment reached, could release in excess of £2million to the Council in the next few years, which members have already agreed should be spent on Council Housebuilding. <u>Advantages</u> This would be at no cost to the HRA Business Plan. <u>Disadvantages</u> That these contributions may not materialise or are required to be committed to another registered provider.
HCA Grant:	The HCA's Affordable Homes Programme prospectus has been released for 2015-18 with local authorities being eligible to bid for up to an indicative 30% towards the cost of providing new homes. The bids have to be submitted by 30 April 2014 with schemes requiring completion by March 2018. <u>Advantages</u> This would be at no impact to the HRA Business Plan. <u>Disadvantages</u> The Programme could be over subscribed meaning that a reduced grant could be payable. There is much administration involved in applying and having to demonstrate viability and value for money. The grant would have to be spent by March 2018 and firm schemes are required. More importantly the current 1-4-1 receipt guidance (and HCA funding prospectus) states that 1-4-1 receipts cannot be applied where there is an HCA grant in place for new properties. So in other words a property cannot be funded by both 1-4-1 receipts and HCA grant. However on the same site, the properties could be split specifically, for example 25% with grant and 75% funded by 1-4-1 receipts. There is therefore a real danger that, as a result of too much HCA funding being used to fund Housebuilding instead of 1-4-1 receipts, some receipts are not utilised within the required 3 years and have to be passed on to the CLG, with interest.
Attributable Debt:	As part of the reinvigoration of the right to buy policy sales are expected to exceed those in the self-financing settlement. For example by the end of 2013.14 19 sales were accounted for in the settlement (i.e. reducing the debt taken on) against a current forecast of 61 sales. Therefore the Government has

allowed authorities through an 'attributable debt' mechanism to keep part of the receipt from sales (when they exceed the Government's assumptions) to offset the impact of having debt which is attributable to those additional sold properties. The original intention was to use this receipt to reduce the HRA CFR but latest accounting regulations have now allowed them to be treated as 'unallocated capital receipts' meaning that they can be used for either HRA or General Fund Purposes.

The balance for these attributable debt receipts currently stands at £0.896million and could be £1.230million by the end of 2014.15. If sales meet the 20 estimate for 2014.15 this would increase to £1.483million or £1.774million if sales of 30 are achieved.

As with many other authorities the receipt is being held as an 'unallocated receipt' in Epping Forest (with interest being received by the General Fund). The principal reason for this is that up to 70% of this could be reclaimed in future years by CLG if right to buy sales start falling below the assumed sale numbers. The mechanism for this will be to reduce the receipt that authorities can retain from future receipts as part of their capped share. So in effect, the attributable debt could potentially be viewed as receiving receipts in advance.

Given that up to 70% could be recovered, Epping Forest still have the potential use of a minimum of 30% of the attributable debt element of the accumulated receipt. In the past, the majority of un-pooled right to buy receipts have funded General Fund capital programmes. Consideration could be given to allowing the HRA to utilise 30% of these balances, particularly as the reduction in receipt was to offset the impact of these sales. Therefore 30% equates to estimated balances of £0.369million (for 2013.14), £0.445million (for 2014.15) which could increase to as much as £0.532million, if sales reach 30 in 2014.15.

<u>Advantages</u>
There is no impact to the HRA Business Plan.

<u>Disadvantages</u>
Using these resources is at the potential expense of the General Fund's future capital programme and loss of interest on the unallocated receipt – although it could be seen as the HRA re-using the value of the lost income to the HRA resulting from right to buy sales, in order to fund replacement HRA properties. A higher number of right to buy sales would be required to achieve a greater value in available resources.

Enhancements: Currently a total provision of £1.42million per annum is available as unallocated resources for service enhancements. This rises to an annual provision of £3.870million from year 6 (2019.20). The increase of service enhancements could be reduced to facilitate funding for additional new homes. These values exclude inflation.

Advantages
This would be an easy choice in terms of either reducing the increased resources available for investment in existing services and stock or in the provision of affordable new homes.

Disadvantages
Without reducing the resources available for service enhancements for 2015.16 to 2018.19 using this option will only provide for additional funds from 2019.20.

Suggested Ranking of Funding Options

When considering the above options and their advantages and disadvantages in respect of the HRA Business Plan we have set out a proposed ranking for which options should be considered first. They are as follows:

1. Use of (and additional) 1-4-1 receipts
2. Reduce HRA balances to £2million
3. S106 Monies (as and when they become available)
4. Use of 30% Attributable Debt receipts
5. HCA Grant
6. Re-profile of HRA self-financing reserve (still to repay loan facility by 2022)
7. Reduction of Service Enhancements
8. Additional Borrowing

These are now considered for each of the identified stages for funding additional new build.

Funding Stage 1 (Phase 2)

This specifically relates to Phase 2 by increasing the density of the site from 20 homes to either 42 or 56 and no amendments to the currently planned 80 homes in Phase 3 and 23 homes in Phase 1.

In this scenario we have also modelled the effects of both 20 and 30 right to buy sales occurring in 2014.15.

For funding Stage 1 we have specifically considered 2 options from the outset, applying the ranking as above:

Option A: Fully utilise 1-4-1 receipts, re-profile HRA self financing reserve contributions and utilise the 30% of the accumulated attributable debt for Phases 1, 2 & 3

Option B: Apply for HCA Grant for part of Phase 2, utilise 1-4-1 receipts for the remainder of Phase 2 and Phases 1 & 3, re-profile HRA self-financing reserve contributions and utilise the 30% of the accumulated attributable debt to fund the subsequent shortfalls

Option A1: 42 Units Phase 2 Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.145m	£5.605m	£2.288m					£11.145m
Phase 3-6 (Orig)			£0.131m	£2.345m	£3.163m	£3.247m	£3.164m	£0.824m	£12.874m
Funding									
1-4-1 Receipt (20)	£0.032m	£0.943m	£1.721m	£1.001m					£3.697m
1-4-1 Receipt (30)	£0.032m	£0.943m	£1.721m	£1.390m	£0.339m				£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.533m

Option A2: 56 Units Phase 2 Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.214m	£5.934m	£3.680m					£12.935m
Phase 3-6 (Orig)			£0.131m	£2.345m	£3.163m	£3.247m	£3.164m	£0.824m	£12.874m
Funding									
1-4-1 Receipt (20)	£0.032m	£0.964m	£1.820m	£0.881m					£3.697m
1-4-1 Receipt (30)	£0.032m	£0.964m	£1.820m	£1.609m					£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.533m

Based on the revised spend profile for delivering either 42 or 56 homes for Phase 2 and 80 homes (as previously modelled) in Phases 3 to 6 and utilising;

- 100% of the 1-4-1 receipts
- Reducing the HRA minimum balance from £3million to £2million
- 30% of the attributable debt reserve

The resulting funding shortfalls are as follows ("Sales" refers to the number of RTB sales that may arise in 2014/15, some of which can be utilised as 1-4-1 receipts):

A1: 42 Units		A2: 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£0.89m	**£0.32m**	**£2.05m**	**£1.48m**

If s106 receipts were to materialise (possibly up to £2million) then this would be sufficient to cover all or the majority of the shortfall in either scenario for the right to buy sales.

Our first suggested resource would be to re-profile the contribution to the self-financing reserve which would result in a reduced shortfall as follows:

A1: 42 Units		A2: 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£0.41m	**-**	**£1.40m**	**£0.92m**

In either scenario of sales numbers or units delivered we have ensured that there are sufficient balances in the self-financing reserve to repay the loan in 2021.22.

If the s106 receipts did not materialise we would then suggest a one-off reduction, equivalent to the estimated maximum shortfall of £1.4million, from the projected service enhancement budget for Year 7 of £3.87million to fund the shortfall, which would still provide for an increase over and above the service enhancement budget for Year 6. Service Enhancements could continue then at £3.87million from Year 8 or, alternatively, the reduction could be spread from Years 7 to 9 as the re-profiled contribution to the HRA self-financing reserve would provide for this.

Option B1: 42 Units Phase (12 Units HCA Grant)
Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.145m	£5.605m	£2.288m					£11.145m
Phases 3-6 (Orig)			£0.131m	£2.345m	£3.163m	£3.247m	£3.164m	£0.824m	£12.874m
Funding									
1-4-1 Receipt (20)	£0.032m	£0.918m	£1.336m	£1.194m	£0.217m				£3.697m
1-4-1 Receipt (30)	£0.032m	£0.918m	£1.336m	£1.194m	£0.945m				£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.553m
HCA Grant (30)			£0.075m	£0.075m					£0.150m

Option B2: 56 Units Phase (24 Units HCA Grant)
Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.214m	£5.934m	£3.680m					£12.935m
Phase 3-6 (Orig)			£0.131m	£2.345m	£3.163m	£3.247m	£3.164m	£0.824m	£12.874m
Funding									
1-4-1 Receipt (20)	£0.032m	£0.916m	£1.200m	£1.334m	£0.215m				£3.697m
1-4-1 Receipt (30)	£0.032m	£0.916m	£1.200m	£1.334m	£0.943m				£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.533m
HCA Grant (30)			£0.150m	£0.150m					£0.300m

Under this option we have assumed that HCA grant will be payable on either **12** of the 42 homes or **24** of the 56 homes for Phase 2 at £12,500 per unit on the basis of 30 right to buy sales in 2014.15. This assumes that 1-4-1 receipts will be attributed to the remaining homes on this scheme in addition to Phases 1 and 3 to 6.

The reason for proposing such a low number of homes to be sought and funded from HRA grant is the risk of the possibility of having to return 1-4-1 receipts to the Government. Under current legislation the 1-4-1 receipts have to be utilised on up to 30% of new build expenditure within a 3 year period. If this not achieved then the element not utilised is returned with interest.

Given the expenditure profile for Phases 3 to 6 there is still a risk that, should HCA grant be received¸ it may require expenditure for these latter phases to be brought forward to negate this risk.

Using these assumptions for HCA grant funding, reducing the HRA minimum balance to £2million, applying 1-4-1 reserves where possible and utilising the 30% of the attributable debt reserve there are still the following funding shortfalls:

B1: 42 Units		B2: 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£0.73m	**£0.17m**	**£1.74m**	**£1.18m**

Again if s106 receipts were to materialise then this may be sufficient to cover all or part of the shortfall in either scenario for the right to buy sales.

Our first suggested resource, as in option A, would be to re-profile the contribution to the self-financing reserve, which would result in the following reduced shortfalls:

B1: 42 Units		B2: 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£0.26m	**-**	**£1.11m**	**£0.65m**

In either scenario we have again ensured that there are sufficient balances to repay the loan in 2021.22.

If the s106 receipts did not materialise we would suggest a one-off reduction of up to £1.11million from the projected service enhancement budget for Year 7 of £3.87million to fund the shortfall. Service Enhancements could continue then at £3.87million from Year 8 or, alternatively, the reduction could be spread from Years 7 to 9 as the re-profiled contribution to the self-financing reserve would provide for this.

__Funding Stage 2 (Phases 3-6)__

In this instance we have purely applied a pro-rata increase to the costs of Phases 3 to 6 to allow for an additional 40 homes to be built within the same time frame (4 years) as allocated before.

We have modelled the two options again in terms of applying for HCA grant or not for Phase 2.

Option A1: Phase 3 (120 Units) Phase 2 (42 Units)
Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.145m	£5.605m	£2.288m					£11.145m
Phases 3-6			£0.197m	£3.518m	£4.745m	£4.871m	£4.746m	£1.235m	£19.312m
Funding									
1-4-1 Receipt (20)	£0.032m	£0.943m	£1.741m	£0.981m					£3.697m
1-4-1 Receipt (30)	£0.032m	£0.943m	£1.741m	£1.709m					£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.553m

Option A2: Phase 3 (120 Units) Phase 2 (56 Units)
Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.214m	£5.934m	£3.680m					£12.935m
Phases 3-6			£0.197m	£3.518m	£4.745m	£4.871m	£4.746m	£1.235m	£19.312m

Funding									
1-4-1 Receipt (20)	£0.032m	£0.964m	£1.839m	£0.862m					£3.697m
1-4-1 Receipt (30)	£0.032m	£0.964m	£1.839m	£1.590m					£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.553m

By assuming;

- The full application of 1-4-1 receipts above
- Reducing the HRA minimum balance to £2million
- Use of 30% of the attributable debt reserve,
- The re-profiling of the HRA self-financing reserve (ensuring balances for the debt repayment scheduled)
- No reduction in service enhancements

There are the following funding shortfalls:

A1: Ph3-6 120 Units Ph2 42 Units		A2: Ph3-6 120 Units Ph2 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£6.21m	**£5.72m**	**£7.27m**	**£6.78m**

This is on account of the build costs increasing by £6.438million (inclusive of inflation), due to the additional 40 homes.

Even if the unaccounted for s106 receipts (in excess of £2million) were applied, it would be insufficient to cover these shortfalls.

In order to fund this shortfall the annual service enhancement provision for Years 7 to 9 of £3.87million could be reduced by between £1.90million and £2.42million per year (depending on the no. of RTB sales and which option is pursued for Phase 2) to balance this position. This would still provide for either an increased or equivalent provision compared to Years 2 to 6 of the Plan.

This would negate the need to use short-term borrowing.

Option B1: Phase 3 (120 Units) Phase 2 (HCA Grant 28 on 42 Units)
Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.145m	£5.605m	£2.288m					£11.145m
Phases 3-6			£0.197m	£3.518m	£4.745m	£4.871m	£4.746m	£1.235m	£19.312m
Funding									
1-4-1 Receipt (20)	£0.032m	£0.883m	£0.843m	£1.284m	£0.655m				£3.697m
1-4-1 Receipt (30)	£0.032m	£0.883m	£0.843m	£1.284m	£1.383m				£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.553m
HCA Grant (30)			£0.175m	£0.175m					£0.350m

Option B2: Phase 3 (120 Units) Phase 2 (HCA Grant 40 on 56 Units)
Spend & Funding Profile (inclusive of inflation)

	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	Total
Spend									
Phases 1 & 2	£0.107m	£3.214m	£5.934m	£3.680m					£11.145m
Phases 3-6			£0.197m	£3.518m	£4.745m	£4.871m	£4.746m	£1.235m	£19.312m

Funding									
1-4-1 Receipt (20)	£0.032m	£0.885m	£0.807m	£1.371m	£0.602m				£3.697m
1-4-1 Receipt (30)	£0.032m	£0.885m	£0.807m	£1.371m	£1.330m				£4.425m
Attble Debt (20)		£0.445m							£0.445m
Attble Debt (30)		£0.533m							£0.553m
HCA Grant (30)			£0.250m	£0.250m					£0.500m

For this option we have assumed that HCA grant will be payable on **28** of the 42 homes or **40** of the 56 homes for Phase 2 at £12,500 per unit without the potential for repayment of 1-4-1 receipts to the Government due to the spend profile. The 28 homes is an increase on the 12 homes identified for HCA funding in Stage 1 due to the increased assumed spend in Phases 3 to 6, thus utilising the 1-4-1 receipts earlier.

By assuming:

- The full application of 1-4-1 receipts above
- Reducing the HRA minimum balance to £2million
- Use of 30% of the attributable debt reserve
- The re-profiling of the HRA self-financing reserve
- No reduction in service enhancements

There are the following funding shortfalls:

B1: Ph3-6 120 Units Ph2 42 Units		B2: Ph3-6 120 Units Ph2 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£5.84m	**£5.38m**	**£6.73m**	**£6.26m**

Again, even if the unaccounted for s106 receipts (in excess of £2million) were applied this again would be insufficient to cover this.

In order to fund this shortfall the annual service enhancement provision for Years 7 to 9 of £3.87million could be reduced by between £1.79million and £2.24million per year to balance this position, which is an increase over the Year 6 provision.

There would be no need with this approach to borrow in the short-term as with the scenario with no HCA grant funding.

Funding Stage 3 (Additional Phases beyond Phase 6)

This stage introduces new phases of Housebuilding beyond the current 6 years, based on a further 4 phases of 30 homes each.

In terms of assessing the funding required we have mirrored Phases 3 to 6, though delaying each phase by 2 years, so expenditure on Phase 7 commences in 2017.18.

Spend Profile (inclusive of inflation)

	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	Total
Phases 3-6	£0.197m	£3.518m	£4.745m	£4.871m	£4.746m	£1.235m			£19.312m
Phases 7-10			£0.207m	£3.695m	£4.985m	£5.118m	£4.986m	£1.298m	£20.289m

For this analysis we have assumed that no 1-4-1 receipts are available, given that the assumed start date commences in 2017.18.

Given that the variances (of £0.34million to £0.54million) between the options to use HCA grant funding or not are not too significant, and given that the later expenditure profile of Phases 7 to 10 will not affect 1-4-1 receipts, we have elected for illustrative purposes to show the projected shortfall on the basis of <u>no</u> HCA grant funding on Phase 2 as this provides for the greater deficit.

In addition we have assumed that both Stages 1 and 2 have been implemented and funded by the necessary reductions to the service enhancements identified above.

Therefore applying:

- The full use of 1-4-1 receipts
- A reduction of the HRA minimum balance to £2million
- Use of 30% of the attributable debt reserve
- Re-profiling the self financing reserve as necessary
- <u>No further</u> reduction in service enhancements (beyond that required to fund Stage 2) from Year 6 (2018.19) onwards

There are the following projected funding shortfalls:

A1: Ph3-10 240 Units Ph2 42 Units		A2: Ph3-6 120 Units Ph2 56 Units	
20 Sales	30 Sales	20 Sales	30 Sales
£17.07m	**£17.24m**	**£17.65m**	**£17.78m**

Note: The shortfall for the higher number of sales in 2014.15 is higher on account that a greater value of service enhancements is allocated for Years 7 to 9.

We see three solutions to funding these shortfalls:

1. Instead of the (reduced) increase of service enhancements due in Year 7 (2019.20) the provision remains the same as previous years (£1.420million) through to Year 9. This would reduce the above shortfalls to between **£15.30million** and **£16.91million**.

   Further borrowing (to that already taken out for the current PWLB loans) would be required to fund this remaining shortfall but, through a combination of not increasing the service enhancement provisions in Years 10 and 11 and by re-profiling the contributions to the HRA self-financing reserve from Year 10, there are sufficient resources to repay the borrowing required from Year 6 by Year 11 of the Plan, allowing for interest charges. The required level of borrowing would reduce if s106 receipts materialise.

2. If service enhancements (marginally due to funding Stage 2) increase in Year 7 and then in Year 12, as originally intended, then the borrowing requirement to meet the above shortfalls of **£17.07million** to **£17.78million** could be repaid by Year 14, again allowing for interest. Again this could be offset by potential s106 monies.

3. If borrowing is considered a last resort then by excluding all service enhancements from Year 3 to Year 9, so that Stage 2 would not be fully funded, the combined shortfalls of Stages 2 and 3 would still materialise at between **£3.81million** and **£5.35million**.

   Whilst there is the possibility of future s106 monies this will still leave a shortfall that can only be funded by short-term borrowing or by delaying of the Housebuilding programme to accommodate this.

   In addition, not only would this solution mean that no service enhancements could be undertaken from Year 3, by eradicating the service enhancement budget it will provide no contingency cover should HRA expenditure increase in the future above the assumptions within the Business Plan. Indeed, it has been necessary for the Council to use the Service Enhancement Fund as a contingency, and reduce the amount that could be spent on service enhancements, for two years now, in order to fund additional costs arising outside of its control (e.g. the Government's cessation of its Rent Convergence Policy).

Conclusion

This report provides the detail in terms of the additional cost for providing a greater number of affordable new homes in the HRA and how they can be funded. Before using additional borrowing for Stages 1 and 2, we have exhausted all reasonable avenues the HRA could take to fund such programmes by following our suggested order or ranking.

It is our conclusion that the HRA (as part of our Stage 1 and 2 analysis) could deliver an additional 62 or 76 homes (dependant on the number of homes pursued for Phase 2) without the need for borrowing, at the expense of reducing the service enhancements increase in Year 7 by between £1.79million and £2.24million (if HCA funding sought) or from future s106 receipts (dependant on whether developments come to fruition and payment trigger points reached) and assumptions around HCA funding and the number of right to buy sales.

If the HRA wished to further extend its new build programme by a further 120 homes (Stage 3 - with building commencing in 2017.18 over a 4 year period) the HRA could finance this through short-term borrowing of between £15.30million and £16.91million whilst still maintaining the current service enhancement provision up to and including Year 11, but being able to repay this within this timeframe. There are other borrowing and funding options that could be considered.

However, it should be noted that no decisions need to be made by the Council yet on whether or not to extend the Housebuilding Programme beyond Phase 6, or how such an extension should be funded.

The projections and analysis contained within this report are based on current assumptions around future inflation and build costs and are therefore subject to change as the business plan evolves.

Simon Smith
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