Committee Agenda

Epping Forest
District Council

Finance and Performance Management Cabinet Committee
Monday, 6th March, 2017

You are invited to attend the next meeting of **Finance and Performance Management Cabinet Committee**, which will be held at:

Council Chamber, Civic Offices, High Street, Epping
on **Monday, 6th March, 2017**
at **7.00 pm** .

Glen Chipp
Chief Executive

Democratic Services Officer	S Tautz Tel: (01992) 564180 Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors G Mohindra (Chairman), S Stavrou, A Lion, C Whitbread, R Bassett,

Invited Members of the Communities Select Committee
R Baldwin, A Beales, K Chana, R Gadsby, L Girling, S Heap, L Hughes, S Jones, Y Knight, A Mitchell, S Murray, B Rolfe, G Shiell, B Surtees, H Whitbread and W Marshall.

PLEASE NOTE THE START TIME OF THIS MEETING

BUSINESS

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

(Director of Governance) To declare interests in any item on this agenda.

3. MINUTES (Pages 3 - 18)

To confirm the minutes of the last meeting of the Committee held on 19 January 2017.

4. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, requires that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

5. STAGE 1 HOUSING REVENUE ACCOUNT (HRA) FINANCIAL OPTIONS REVIEW (Pages 19 - 56)

(Director Communities) To consider the attached report (FPM-027-2016/17).

6. EXCLUSION OF PUBLIC AND PRESS

Exclusion: To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Background Papers: Article 17 - Access to Information, Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection for four years after the date of the meeting one copy of each of the documents on the list of background papers.

EPPING FOREST DISTRICT COUNCIL
COMMITTEE MINUTES

Committee:	Finance and Performance Management Cabinet Committee	**Date:**	Thursday, 19 January 2017
Place:	Council Chamber, Civic Offices, High Street, Epping	**Time:**	7.00 - 9.07 pm

Members Present: Councillors G Mohindra (Chairman), S Stavrou, A Lion, C Whitbread and R Bassett

Other Councillors: Councillors R Brookes, Y Knight, G Waller, H Whitbread, J H Whitehouse and J M Whitehouse

Apologies:

Officers Present: F Ahmed (Finance Officer), D Bailey (Head of Transformation), J Bell (Senior Account), G Chipp (Chief Executive), A Hall (Director of Communities), A Hendry (Senior Democratic Services Officer), D Macnab (Deputy Chief Executive and Director of Neighbourhoods), P Maddock (Assistant Director (Accountancy)), C O'Boyle (Director of Governance), R Palmer (Director of Resources), R Perrin (Democratic Services Officer), L Swan (Assistant Director (Private Sector Housing & Communities Support)) and R Wilson (Assistant Director (Housing Operations))

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36. Webcasting Introduction

The Chairman reminded everyone present that the meeting would be broadcast live to the Internet, and that the Council had adopted a protocol for the webcasting of its meetings.

37. Declarations of Interest

There were no declarations of interest pursuant to the Council's Member Code of Conduct.

38. Minutes

RESOLVED:

That the minutes of the meeting held on 10 November 2016 be taken as read and signed by the Chairman as a correct record.

39. Extending the funding of 2 Epping Forest Citizens Advice Bureau Debt Advisors

The Assistant Director (Housing Operations), R Wilson, presented a report regarding the extension of funding for 2 Epping Forest Citizens Advice Bureau (CAB) Debt Advisors for a further year from 1 April 2017.

The Cabinet Committee had previously agreed to fund the CAB's two Debt Advisors for a further year in 2016/17 subject to the CAB Manager attending an appropriate meeting to explain the use and outcomes of the Council's grant funding. Accordingly, the CAB Manager had recently attended the Communities Select Committee on 17 January 2017 and advised that CAB now had offices in the library in Loughton, a newly refurbished office in Epping, a new online system and were looking to provide outreach services in Ongar and at Norway House, North Weald. She had also said that she expected that reductions in the overall national Welfare Budget would increase the need for continued support around personal budgeting and debt advice.

The Chairman of the Communities Select Committee, Councillor Y Knight attended the Cabinet Committee meeting advised and that the Select Committee had fully supported the recommendation to extend the two posts for a further year. She advised that the CAB's presentation would be made available to all Members by email, which provided detailed information on the use and outcomes of the service throughout the District and that the CAB had agreed to make a further presentation to the Select Committee on the use of the funding in twelve months' time.

The Cabinet Committee were in agreement that the CAB provided a valuable service that could prevent rent arrears and homelessness issues for the District's residents.

Recommended:

1) That funding for the Citizens Advice Bureau's two existing Debt Advisors be recommended to Cabinet for approval from 1 April 2017 for a year and funded as follows:

(a) £37,800 from the Housing Revenue Account; and

(b) £4,200 from the General Fund District Development Fund; and

Resolved:

2) That the CAB makes a presentation to the Communities Select Committee about the use and outcomes from the funding in 12 months' time.

Reasons for Decision:

To agree to extend the funding of the CAB's two existing Debt Advisors for a further year from 1 April 2017, in order to provide support to residents with personal budgeting and debt advice.

Other Options Considered and Rejected:

1. Not to agree to extend the funding of the CAB's two existing Debt Advisors for a further year from 1 April 2017.

2. To only extend the funding for one CAB Debt Advisor.

3. To provide funding for more than two CAB Debt Advisors.

40. Homelessness Initiatives

The Assistant Director (Housing Operations), R Wilson, presented a report on the current homelessness situation in the District and on initiatives to seek to mitigate the increasing numbers, which included the appointment of 1 additional Homelessness Prevention Officer, amendments to the operation of the proposed rental loan scheme, the use of an external company to undertake Homelessness Reviews and funding for an external specialist services to provide advice to rough sleepers.

The Communities Select Committee had been asked by the Portfolio Holder for Housing to consider various mitigation strategies to deal with the current and future increasing pressures of homelessness in the District, which had been summarised as follows:

- The Council's Hostel's were full most of the time;
- The Housing Association Leasing Direct Scheme had reduced to 15 units, which were fully occupied;
- Increasing figures of single homeless applicants within Bed and Breakfast(B&B);
- Lack of temporary accommodation leading up to 5 families being placed in B&B accommodation, which becomes unlawful after 6 weeks;
- The net cost to the Council's General Fund had increased from £62,561 in 2013/14 to £114,273 in 2015/16;
- B&Bs were often full due to other authorities using the hotels as well;
- 14 homeless families were currently placed within the Council's own housing stock on non-secure tenancies until their cases were resolved and the likelihood was that this figure would rise;
- The Invest to Save fund for landlord deposits held by a third party had proven difficult to operate and had therefore not been able to be used;
- London Boroughs were placing their homeless applicants in privately rented accommodation within the District and paying more generous cash incentives;
- The Homelessness Reduction Bill was expected to become law in 2017 placing additional duties on the Council to prevent and reduce homelessness; and
- The number of Statutory Homelessness Reviews was increasing the burden on senior officers.

In order to combat these increasing pressures on the homelessness services, a bid of £32,000 from CSB funding for the appointment of 1 FTE additional Grade 6 Homelessness Prevention Officer and £9,000 for external assistance with statutory homelessness reviews had been requested. In addition to this the Invest to Save funding of £90,000 would provide applicants with a rental loan for 4 weeks when securing accommodation in the private rented sector and/or a landlord deposit in accordance with LHA rates, which would be paid back on an interest free basis over 36 months. Furthermore a CSB Growth Bid of £2,500 per annum had been requested from 2017/18 to fund an external company to provide specialist services to rough sleepers.

The Chairman of the Communities Select Committee, Councillor Y Knight attended the meeting and advised that the Select Committee had fully supported the recommendations, in order to prevent homelessness and associated costs to the Council.

Councillor J M Whitehouse enquired about the use of Council flats above shops with separate access being made available and incorporated into the Council stock, that were not linked to the lease. R Wilson advised that he would discuss this with the Estates team.

Recommended:

1. That CSB funding of £32,000 per annum for the appointment of 1 FTE additional Grade 6 Homelessness Prevention Officer be recommended to Cabinet for approval;

2. That the existing Invest to Save Funding of £90,000 be used for providing applicants with a rental loan of 4 weeks rent to meet the costs of rent in advance when securing accommodation in the private rented sector and/or a landlord deposit in accordance with LHA rates (lodged with a third party by the landlord) with applicants being required to repay loans on an interest free basis over 36 months be recommended to Cabinet to for approval;

3. That a CSB Growth Bid of £9,000 per annum from 2017/2018 to fund an external company to undertake Homelessness Reviews be recommended to Cabinet for approval; and

4. That a CSB Growth Bid of £2,500 per annum from 2017/2018 to fund an external company to provide specialist services to rough sleepers be recommended to Cabinet for approval.

Resolved:

5. That the Assistant Director (Housing Operations) would investigate the use of Council flats above shops that were linked to the lease, being made available for housing stock.

Reasons for Decision:

To ensure that the Council was prepared for the increased pressures due to homelessness and could respond fully to the requirements of the expected Homelessness Reduction Act in 2017.

Other Options Considered and Rejected:

1. Not to agree the appointment of 1 FTE additional Grade 6 Homelessness Prevention Officer in order to deal with the requirements of the expected Homelessness Reduction Act and the additional workload generally due to the increasing homelessness pressures.

2. Not to agree the additional budget of £9,000 for external assistance with statutory homelessness reviews.

3. Not to agree that the existing Invest to Save Funding of £90,000 now be used for providing applicants with a rental loan of 4 weeks rent to meet the costs of rent in advance when securing accommodation in the private rented sector and/or a landlord deposit in accordance with LHA rates (lodged with a third party by the landlord) with applicants being required to repay loans on an interest free basis over an increased period of 36 months. Furthermore, to continue with the current unworkable arrangements whereby landlord deposits were provided and held by a third party on behalf of the Council.

4. To agree a different use for the budget.

41. CARE Agency

The Assistant Director (Private Sector Housing and Community Support), L Swan, presented a report on the funding for Caring and Repairing in Epping Forest (C.A.R.E).

The Disabled Facilities Grants (DFGs) were statutory, means-tested grants of up to £30,000 to provide adaptations in the homes of disabled owner-occupiers and private tenants to maintain independent living in the community. Expenditure on DFGs in 2016/17 was expected to be £630,000 and came from the General Fund, through the Government to Essex County Council (ECC) via the Better Care Fund (BCF) alongside a contribution from EFDC. In 2016/17 the amounts allocated were £665,000 from the BCF and £120,000 from EFDC. These services were provided through the Council's in-house Home Improvement Agency (HIA), C.A.R.E. (Caring and Repairing in Epping Forest). ECC currently provided funding of £51,000 a year for C.A.R.E. but had recently announced that this funding would stop in April 2017. Therefore, in order to continue to provide this service it was recommended that £51,000 of the BCF (which was likely to be in excess of £665,000 in 2017/18) was 'top-sliced' in 2017/18 to meet the funding shortfall.

The Cabinet Committee were in favour of enabling residents to stay within their own homes and therefore supported the recommendations.

Recommended:

1. That £51,000 be top-sliced from the Government's Better Care Fund (BCF) contribution towards support for applicants of Disabled Facilities Grants (DFGs) from 2017/18; and

Resolved:

2. That the capital allocation for Disabled Facilities Grants continues to be monitored by Members on a quarterly basis with specific reference to the viability of this arrangement from 2017/18 onwards.

Reasons for the Decision:

C.A.R.E. provides services to support older people and people with disabilities to maintain independent living in the community. A large part of the team's work was to help people with disabilities to apply for adaptations to their homes. Historic evidence was that if people were not supported to apply for the help they needed, they would do without the adaptations and risk ending up in the care service or in hospital.

The BCF was set up in 2014 in order to provide 'the most vulnerable people in our society with a fully integrated health and social care service, resulting in an improved experience and better quality of life'. The funding that the Council expected to receive from ECC in April 2017, added to the £120,000 DFG funding that the Council had already agreed for 2017/18, was likely to be more than £785,000 which would be more than adequate to meet the need for DFGs and the £51,000 funding shortfall. As the BCF allocation for future years was not known at present (although it was likely to be at least as much if not more than the current allocation), consideration would need to be given in the monitoring of Capital budgets as to whether this arrangement should continue in future years.

Options Considered and Rejected:

1. The main alternative option to the one proposed would be to raise the fees charged to DFG applicants. This was currently 15% of the cost of the building work and it had been estimated that if this was to be raised to 32% this would result in sufficient additional funds to meet the funding shortfall. This option had been discounted on several grounds.

Firstly, it was generally accepted that fees for specialist services associated with building work were in the order of 12-15%. If C.A.R.E. was to charge a fee of 32% service users would seek alternative providers that could do the work more cheaply and, as a result, the desired aim of increasing fee income would not be achieved.

Secondly, although in most cases the higher fee would come directly from the DFG budget and, therefore, would not impact DFG applicants, there were some circumstances in which applicants would be financially affected. These were:

a) Where the cost of work plus the increased agency fees added together come to more than the grant maximum of £30,000 as in these circumstances DFG applicants would have to pay the excess from their own resources. At present this happens in a very small number of cases where the cost of the work is about £26,000. If the fee was to be increased to 32% this would affect more cases a year where the cost of the work exceeded £22,700. In addition these were likely to be larger schemes which were most often adaptations for disabled children.

Since DFGs were means-tested, in order to receive a grant, an applicant would have to be on a low income. Experience showed that where applicants were likely to have a financial contribution to make towards the work, they would not apply and would suffer the consequences such as having inadequate washing and toileting facilities or falling at home.

b) Where DFG work costs more than £5,000 the Council places a charge on the property so that when the property was eventually sold the Council can recoup some of its costs. The charge remains on the property for 10 years and the maximum amount that can be recovered was £10,000. With the current 15% fee the maximum cost of work that would result in a charge being placed on the property was £4,300. This affected about 88% of DFGs a year. If the fee was to be increased to 32%, based on 2016/17 figures, it would affect all DFGs. Experience shows the charge does put off many applicants applying for DFGs.

2. The option of discontinuing the C.A.R.E. service was not being considered as the Council had a key objective in its Corporate Plan 2015-2020 to make appropriate plans and arrangements to respond to the effects of the District's ageing population (Corporate Plan 2015-2020 key objective (iii)(c)). The majority of residents that used C.A.R.E. to help them apply for DFGs had disabilities that were associated with age and it would be contrary to the aims of the Council's Corporate Plan if it were not to continue to provide the service.

The option to seek the additional resources required from the General Fund had been discounted since the General Fund was under pressure and the funding could legitimately be made up from the BCF.

42. Risk Management - Corporate Risk Register

The Director of Resources presented a report regarding the Council's Corporate Risk Register.

The Corporate Risk Register had been considered by both the Risk Management Group on 12 December 2016 and Management Board on 21 December 2016. The reviews identified amendments to the Corporate Risk Register but no additional risks or scoring changes. The amendments were as follows;

(a) Risk 1 – Local Plan

The public consultation closed on 12 December 2016, an additional Required further management action had been added to cover the need to assess the responses received. "Making use of external PR firm" had been added to an Existing control, this would assist with the provision of accurate ongoing communications.

(b) Risk 2 - Strategic Sites

The Effectiveness of controls/actions had been amended to advise the updated position for the key sites. Work continued to progress well at the Winston Churchill site. The purchase of St. Johns from Essex County Council had been completed. The works at Langston Road continued ahead of schedule. Waltham Abbey Leisure Centre had been added as a key site, with the Required further management action of obtaining detailed planning consent.

(c) Risk 4 - Finance Income

The Key date had been amended for budget setting at Council on 21 February 2017.

(d) Risk 9 - Safeguarding

The Vulnerability now included reference to the Care Act 2014, which referred to adults with needs for care and support. This included a specific responsibility for safeguarding adults from self-neglect.

Members were asked to consider the updated Corporate Risk Register and whether the risks listed were scored appropriately and if there were any additional risks that should be included.

Councillor J M Whitehouse advised that the removal of the 'Forester' was required to Risk 1 – Local Plan, under Effectiveness of controls/actions.

Recommended:

1. That the Existing Control and Required further management action in Risk 1 – Local Plan be updated;

2. That the Effectiveness of controls/actions and Required further management action in Risk 2 - Strategic Sites be updated;

3. That the Key date for Risk 4 - Finance Income be updated;

4. That the Vulnerability for Risk 9 – Safeguarding be updated; and

5. That including the above agreed changes, the amended Corporate Risk Register be recommended to Cabinet for approval.

Reasons Decisions:

It was essential that the Corporate Risk Register was regularly reviewed and kept up to date.

Other Options for Considered and Rejected:

Members could suggest new risks for inclusion or changes to the scoring of existing risks.

43. DETAILED DIRECTORATE BUDGETS

The Assistant Director Accountancy presented a summary of the detailed directorate budgets for 2017/18.

The report provided the draft General Fund and Housing Revenue Account (HRA) Budgets for the financial year 2017/18, which were presented on a directorate by directorate basis. There were accompanying notes highlighting areas where significant changes had occurred, which were presented to the Cabinet Committee to give an opportunity for Members to comment and make any recommendations prior to the budget being formally set during February 2017. The budget setting process commenced with the Financial Issues Paper incorporating the Medium Term Financial Strategy (MTFS) being presented in July 2016, which had identified a savings target for 2017/18 of £0.25 million.

The settlement figures provided in December 2015 were for four years and providing that the Council had signed up to an efficiency plan. The Council duly agreed to accept the settlement during the autumn on the basis that indications were that failure to do so could mean a worse settlement, although the figures had not included the New Homes Bonus. The released proposals had been rather more draconian than expected as a significant amount had been redirected to Adult Social care, meaning a reduction for districts but a gain for county's. The actual reduction was around £2.5 million for this Council but because the MTFS had assumed some loses going forward the actual growth required to meet the shortfall over the next four years was £1.9 million. The impact on the Council of this was serious but because of the savings on the new Leisure Management Contract, income from the Epping Forest Retail Park, the Winston Churchill development and other assets, the Council would be in a far better position than some other districts. The commitment made to move to 100% retention of Business Rates locally was still being worked on by Central Government and the current retention proportions (40% District, 9% County and 1% fire) were likely to be changed.

The budgets were presented on a directorate by directorate basis, highlighting areas where Continuing Services Budget (CSB), District Development Fund (DDF) savings or growth and Invest to Save (ITS) expenditure had occurred and also where allocation or other changes had affected budgets.

<u>Chief Executive</u>

The Chief Executive reported that the budget was made up of mostly recharges from services for corporate and public accountability activities, subscriptions and Transformation Projects. The original estimate for 2016/17 had been an expenditure of £1.174 million, with a probably outcome of £1.317 million. The net increase had been attributed to the new Head of Customer Services position reporting directly to the Chief Executive and the Invest to Save amount of £83,000 for the accommodation review. The 2017/18 budget also included an additional DDF allocation of £100,000 to support work to integrate and increase efficiency in the delivery of public services.

Communities Directorate

The Director of Communities reported that the Directorate was responsible for three distinct budgets which were the Housing General Fund, Community Services & Safety and the Housing Revenue Account (HRA).

The Housing General Fund mainly covered Private Sector Housing, which showed a reduction of around 17% between the original estimate and probable outturn for 2016/17, which had received more external funding from the Better Care Fund than expected and reduced the Council's costs with a similar amount being assumed for 2017/18. The other main part of the Housing General Fund was Homelessness, which showed a reduction of 6% between the original estimate and the probable outturn for 2016/17. This had been mainly due to changes in salary allocations, although CSB growth for Homelessness budget would increase next year.

Within the Community Services and Safety budget the expenditure on Voluntary Sector Support was on budget at £412,000 with the 2017/18 budget being similar. The Museum, Heritage and Culture budget had been able to make a 10% saving on expenditure in 2015/16, compared to the previous year but the budget for 2016/17 was slightly higher to account for the running costs of the new bigger Museum following the recent redevelopment project. Finally, expenditure this year on Community, Health and Wellbeing was on target and a 5% saving had been made on the Safer Communities budget for 2017/18.

Housing Revenue Account

The Director of Communities reported that the types of expenditure and income that had been allocated to the HRA were governed by legislation and therefore not controlled by the Council. The Management and Maintenance budget, which covered Supervision & Management (General), Supervision & Management (Special) and the Repairs Fund was around £15,444 million and the probable outturn was around £170,000 less. Although the Housing Repairs Fund was showing a reduction of £400,000, it had been accounted for under Supervision & Management (General). The budget for Management and Maintenance was showing an overall increase of 3% in 2017/18.

Within the Income for Gross Rent of Dwellings, 2016/17 was the first year of the 1% Rent Reductions and whilst being good for tenants, income to the HRA had been reduced and was further impacted by the loss of rental income from right-to-buy sales. In 2016/17 rental income was expected to fall by around £390,000 and in 2017/18 a further reduction of £244,000 was predicted. This impact had been reduced due to the properties built through the Council Housebuilding Programme coming into use in 2017/18.

Income from non-dwelling rents had increased by 2% and, in line with the general increases for Fees and Charges, although the Services and Facilities charges had increased by 9% for 2016/17, due to support charges for Careline users and tenants in the sheltered housing schemes being increased to cover the cut in housing related support of £185,000. Finally, the net cost for services next year showed a healthy surplus of expenditure, being around £2.5 million less than income received.

The annual interest payment to the Public Works Loan Board for the Self-Financing Debt Settlement remained at around £5.6 million per annum because most of the loans were fixed rates and the interest rates were not expected to rise significantly for the one variable rate loan.

The Director of Communities advised that the Council was not in a position to transfer money into the Self-Financing Reserve, for the second year running, because of the effects of the 1% rent reductions. The issue would be revisited with long term options being reviewed by the Cabinet Committee in spring 2017, when it undertakes Stage 1 of the further HRA Financial Options Review. It was noted that the HRA was expected to remain in balance at the end of the year by around £2 million, which was inline with the Cabinet's decision in 2014.

Governance Directorate

The Director of Governance reported that the net expenditure had fallen from £3.12 million to £3.04 million, which had been predominantly attributed to income received from planning and building control applications, large development and extensions.

The Director of Governance highlighted the changes within the directorate budget as follows;

- The estimates remained static for Elections and the probable outturn included the reimbursement of the EU Referendum held in June 2016 and a DDF saving of £41,000 in 2017/18, as there are no District Election scheduled for in May 2017;
- Member Activities had reduced in both 2016/17 and 2017/18 which had been mainly due to the reallocation of support charges;
- Planning and Development income had increased by 46% since 2013/14 which had been split to allow some for DDF, to employ an additional planning officer and administration staff;
- Governance Support Services were recharged to direct Services across the directorates and included both General Fund and HRA expenditure.

Neighbourhoods Directorate

The Director of Neighbourhoods reported that the main items of large expenditure were the outsourced contracts for Waste Management and Recycling, Leisure Management and the production of the Local Plan. The income of the Council's assets looked to generate just over £4.1 million in 2017/18. The total directorate budget was £9.28 million in 2016/17, which would see a year on year increase to £9.83 million in 2017/18.

The Director of Neighbourhoods highlighted the changes within the directorate budget as follows;

- Waste and Recycling – A growth item of £427,000 for a variation by Biffa to reflect the composition of the Councils dry recycling and the volume of dry recycling bags that were being issued. Going forward measures were being taken to mitigate the costs and continued dialogue with the contractor on service review options to reduce costs with the possibility of a third wheeled bin;
- Forward Planning and Economic Development – A growth of £228,000 was required for the timetable of the Local Plan and the changing of goal posts from Central Government including the increased costs of producing the evidence base. However DCLG had award the Council £500,000 to take forward the Garden City bid;
- Land Drainage/Sewerage – A growth of £37,000 had been agreed to appoint a further Land Drainage officer to mitigate the largest risk to the District;
- Asset Management – It had been anticipated that an increase of £490,000 of income would be received as a result of the Epping Forest Shopping Park opening in August 2017 and a lease review in Waltham Abbey that would generate another £100,000;
- North Weald Market - Following the new operator the declining trend in occupancy and income had begun to reverse;

- Leisure Management Contract – The 20 year contract had been award with a savings total of £1 million per year, although this would not be realised until year 5 of the contract;
- Off Street Parking – Members had elected to take back the off street parking which would produce a £56,000 per annum saving.

Councillor G Mohindra advised that on behalf of the Environment Portfolio it was looking increasingly likely that the Council would have to look at other options because of the increasing costs of the recycling sacks.

Resources Directorate

The Director of Resources reported that there was a decrease between the original estimate in 2016/17 of £2.56 million down to £2.42 million for 2017/18, despite the CSB growth of Apprentices and the Apprenticeship Levy of £60,000 and £69,000. Furthermore, within the CSB growth the Non-Domestic Rates for the Civic Offices would be appealed, due to the new rating list coming into action in 2017/18.

The Director of Resources highlighted the changes within the directorate budget as follows;

- Local Taxation – The external auditors requested that some of the income be treated differently and therefore no longer showing within the Local Taxation figure but shown in the General income. There had been no increase in the net costs.

The Director of Resources thanked P Maddock, J Bell, F Ahmed and the other Officers for what had been a difficult year of estimates to produce with staff issues and late announcements including the New Homes Bonus and NNDR.

The Portfolio Holder for Finance also thanked the Officers for their efforts.

Recommended:

(1) That the detailed Directorate budget for the Chief Executive be recommended to the Cabinet for approval;

(2) That the detailed Directorate budget for Communities be recommended to the Cabinet for approval;

(3) That the detailed Directorate budget for Governance be recommended to the Cabinet for approval;

(4) That the detailed Directorate budget for Neighbourhoods be recommended to the Cabinet for approval;

(5) That the detailed Directorate budget for Resources be recommended to the Cabinet for approval; and

(6) That the detailed Directorate budget for the HRA be recommended to Cabinet for approval.

Reasons for Decisions:

To give Members an opportunity to review and provide recommendations on the detailed budget prior to adoption by Council.

Other Options Considered and Rejected:

Other than deciding not to review the budget there were no other options.

44. Any Other Business

Resolved:

That, as agreed by the Chairman of the Cabinet Committee and in accordance with Section 100B(4)(b) of the Local Government Act 1972, the following items of urgent business be considered following the publication of the agenda:

(a) Detailed Directorate Budgets - Housing Revenue Account; and

(b) Council Budgets 2017/18.

45. Council Budgets 2017/18

The Director of Resources presented a report detailing the proposed Council Budget for 2017/18, which used £108,000 from reserves but maintained the Council's policy on the level of reserves throughout the period of the Medium Term Financial Strategy (MTFS). Over the course of the MTFS, the use of reserves used to support spending peaked at £139,000 in 2019/20 and reduced to £78,000 in 2020/21. The budget was based on the assumption that Council Tax would be frozen and average Housing Revenue Account rents would decrease by 1% in 2017/18.

The annual budget commenced with the Financial Issues Paper (FIP) being presented to the Committee on 14 July 2016, which continued the earlier start to the process and reflected the concerns over the reform of financing for local authorities. It highlighted the uncertainties associated with Central Government Funding, Business Rates Retention, Welfare Reform, New Homes Bonus, Development Opportunities, Transformation, Waste and Leisure Contracts and Miscellaneous including recession, income streams and pension valuation.

In setting the budget for the current year, Members had anticipated using £36,000 from the General Fund reserves which was possible as the MTFS approved in February 2016 had shown a combination of net savings targets and limited use of reserves. The limited use of reserves in 2016/17 was not significant as the MTFS at that time had been predicting the use of just under £0.38 million of reserves to support spending in the following three years.

The revised MTFS presented with the FIP took into account all the changes known at that point and highlighted the potential reductions in New Homes Bonus. The projection showed a need to achieve additional net savings of £250,000 on the 2017/18 estimates, followed by £150,000 in 2018/19 and £100,000 in 2019/20 to keep revenue balances comfortably above the target level at the end of 2019/20. The budget guidelines for 2017/18 were therefore established as; the ceiling for CSB net expenditure be no more than £13.11 million including net growth/savings; the ceiling for DDF net expenditure be no more than £0.26 million; and the District Council Tax be frozen.

The Director of Resources reported that Members had decided that the offer from DCLG of a four-year settlement had been accepted and figures were very much as expected with the SFA reducing over the four years by £2.43 million or nearly 45%.

The full retention of business rates had proven to be disappointing with the funding increasing from £3.02 million in 2015/16 to £3.32 million in 2019/20, an increase of

£0.3 million or 9.9% and the tariff paid to the Treasury increasing by a similar percentage from £10.23 million to £11.17 million. Furthermore, the Councils retained business rates would exceed the SFA in 2019/20, incurring an additional tariff of £0.28 million and a disincentive to local authorities in devoting resources to economic development. The Council Tax had not increased since 2010/11 and the Cabinet Committee had advised that the Council Tax would not increase whilst the General Fund balance remained comfortably above the minimum requirement. The settlement confirmed the Council Tax referendum limit remaining at 2% and the Council would continue to phase out in equal steps the Parish/Town Local Council Tax Support as previously advised in 2017/18, 2018/19 and then stopping in 2019/20.

The Director of Resources advised that the DCLG had again under estimated the Council business rate income, with the Council receiving over £0.75 million in 2014/15 through Section 31 grants and was anticipated to reduce to £0.7 million in 2015/16 and £0.4 million in 2016/17 with the retail relief coming to an end. The Council remained in a business rates pool for 2016/17 and this would be monitored for 2017/18. Furthermore, the first year of the new rating list would be in 2017/18, which was meant to leave authorities no better or worse off, although adjustments could be required in 2018/19. The DCLG had also introduced three levels of transitional relief, which had created software issues and the submission to DCLG of the NNDR1 being delayed. This had been compounded by the introduction of a new system of “Check, Challenge, Appeal” for businesses to use in challenging their bills. There were also hundreds of appeals that were still outstanding on the current list and calculating an appropriate provision for appeals remained extremely difficult. The total provision against appeals was currently close to £5 million.

The Director of Resources advised that 100% local retention of business rates which had been widely welcomed would mean that local government would retain it all, although the Government had advised that the policy would be fiscally neutral. Therefore any additional funding would be matched by a transfer of additional responsibilities that had previously been centrally funded and demand led with any increases and recessions reducing the funding available. The new system was expected to be implemented by 2019/20, although it looked unlikely and another consultation was expected early in 2017/18.

The welfare reforms had been expected to increase demand for LCTS and the chances of the scheme not becoming self-financing in 2016/17, although no major reductions in the tax credits and the introduction of the National Living Wage had seen the scheme closer to self-financing and no significant changes being made in 2017/18. Also the Benefits Cap reduction to £20,000 per household was likely to cause greater changes in people’s behaviour and working patterns. The lower cap had been phased in across the country during 2016/17 and so far 150 cases in the district had been affected and would probably become more evident in 2017/18. The Universal Credit (UC) continued to progress with the district scheduled for “full service” in September 2018 and the grant paid to local authorities to administer housing benefit and LCTS had been substantial reduced by £59,000 in 2016/17 and £42,000 in 2017/18, which represented a cut of over 8%.

The anticipated changes to the New Homes Bonus (NHB) received in 2016/17 had been included in the CSB with further reduction in 2018/19, allowing for a reduction of £1.1 million, however the DCLG had advised reductions of £2.5 million over the period from 2016/17 to 2020/21. The reason for the much larger reduction was the introduction of a baseline of 0.4% for 2017/18, meaning that only growth above 0.4% of the taxbase qualified for NHB. This meant that the NHB for 2017/18 would be £16,000 instead of £320,000. The consultation included the possibility of a baseline at 0.25%, so the imposition of this much higher baseline was a nasty surprise and was likely to be the case going forward as well, hence the reduction to £0.2 million by 2020/21. Also the reduction to the number of years the bonus was made payable from 6 to 4 had been confirmed with the full reduction being in 2018/19. Other proposals included within the consultation were to withhold NHB from authorities that had not got a Local Plan in place; or a reduction in payments, where planning approval had been granted on appeal. Although these had not been introduced for 2017/18, they would be considered again for 2018/19. The final settlement could provide some relief but to be prudent no additional support had been anticipated in the MTFS.

With regards to development opportunities the construction of the retail park was now progressing well, although there were still issues with the highways department at Essex County Council (ECC). The negotiations were also continuing with potential tenants and indications were that the projected rent levels should be achieved and the budgeted allowance for tenant incentives would not be exceeded. The professional advisors had stated that the annual rental income of £2.7 million was achievable and the MTFS included a prudent view, reducing this to £2.2 million to allow for any shortfall, management costs and interest. Progress had finally been made with the mixed use re-development of the St Johns area in Epping. The land acquisition from ECC took much longer than anticipated but was concluded in December 2016. Finally the former Winston Churchill pub site had also been progressing well and the Council had retained an interest in the ground floor retail element, which would be worth approximately £350,000.

Delays in the new housebuilding programme and the development schemes meant that it was possible to finance the capital programme in 2016/17 without any additional borrowing. However, this would not be possible for 2017/18 and going forward, a different way of thinking would be required as capital would no longer be freely available and borrowing costs would be a key part of any options appraisals.

The target of £100,000 of savings had been achieved with savings generated across the Council. There were many transformation projects underway that would continue on into 2017/18 and beyond. The key accommodation review was well underway and a report was scheduled for Cabinet in March 2017, to determine the future of the current civic office site. Strong progress had also been made with the work on customer contact and this had the potential to significantly change the structure and working practices of the Council. The Invest to Save budget had an additional £0.2 million allocated in the 2016/17 revised estimates and an update on how the various schemes were progressing had been made to the Committee in November 2016.

The Waste Contract had been procured at a lower cost and the savings were included in the MTFS. However, issues with recycling and service delivery mean that CSB growth of nearly £0.5 million had been included in the revised estimates for 2016/17 together with £0.2 million of DDF expenditure. These costs were not sustainable in the long term and various options were already being discussed with Biffa at the Waste Management Partnership Board. The Leisure Management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. The new contract would begin on 1 April 2017, with a new provider for a period of 20 years and over the lifetime of the contract the average CSB savings would be more than £1 million per year. The payments under the contract varied considerably between years and so the CSB savings were phased in over the first four years of the contract.

In addition, there were a number of other issues that needed to be considered which included the general economic cycle and the potential for a recession. The pension contributions based on the March 2016 valuation showed that the scheme was now

85% funded and the options for payments over the next three years had been reduced to 19 years, which had created a small amount of CSB growth in 2018/19 and 2019/20.The new apprenticeship levy required a significant expansion of the existing apprenticeship programme with CSB growth of £129,000 in 2017/18.

The Cabinet Committee were reminded that the strategy had been based on a number of important assumptions, including the following:

- Future Government funding would reduce as set out in the draft settlement, with Revenue Support Grant turning negative in 2019/20;
- CSB growth had been restricted with the CSB target for 2017/18 of £13.11 million achieved. The known changes beyond 2017/18 had been included but if the new leisure contract failed to yield the predicted savings other efficiencies would be necessary;
- It had been assumed that the retail park would achieve the revised opening date in 2017 and that income would be in line with the consultant's projections;
- It had been assumed that no transitional relief would be provided to reduce the impact of the reduction in New Homes Bonus;
- All known DDF items were budgeted for, and because of the size of the Local Plan programme a transfer in of £0.5 million from the General Fund Reserve would be required in 2018/19 to ensure funds were available through to the end of 2020/21;
- Maintaining revenue balances of at least 25% of NBR. The forecast showed that the deficit budgets during the period would reduce the closing balances at the end of 2020/21 to £5.7 million or 45% of NBR for 2020/21, although this could only be done with further savings in 2018/19 and subsequent years.

The Director of Resources reported that the balance on the HRA at 31 March 2018 was expected to be £2.022 million, after a surplus of £494,000 in 2016/17 and a deficit of £1.674 million in 2017/18. The estimates for 2017/18 had been compiled on the self-financing basis and so the negative subsidy payments had been replaced with borrowing costs. The next three years required the reduction to Council rents of 1% would impact on the HRA Business Plan and would be reviewed during 2017/18.The budgets for 2017/18 and revised 2016/17 had a deficit in 2017/18, although the HRA had adequate ongoing balance.

Finally, the Director of Resources drew the Cabinet Committees attention to the Council's Capital Programme which totalled nearly £125 million over the five year period and it was anticipated that the Council would still have £1.7 million of capital receipt balances at the end of the period. (One-four-one amounts to be used in the house building programme). The £185 million of debt for the HRA self-financing had meant that the Council was no longer debt free and the Prudential Indicators and Treasury Management Strategy had been amended.

The Committee expressed their thanks to B Palmer, P Maddock and their Officers for their work on the Council's budgets, forward thinking and looking after the Council.

Recommended:

(1) That in respect of the Council's General Fund Budgets for 2017/18, the following guidelines be adopted;

(a) the revised revenue estimates for 2016/17, and the anticipated reduction in the General Fund balance by £0.62 million, including a transfer of £0.2 million to the Invest to Save Reserve;

(b) to confirm the target for the 2017/18 CSB budget of £13.11 million (including growth items);

(c) an increase in the target for the 2017/18 DDF net spend from £0.26 million to £2.0 million;

(d) no change in the District Council Tax for a Band 'D' property to retain the charge at £148.77;

(e) the estimated decrease in General Fund balances in 2017/18 of £108,000;

(f) the five year capital programme 2016/17 – 20/21;

(g) the Medium Term Financial Strategy 2016/17 – 20/21;

(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement.

(2) That including the revised revenue estimates for 2016/17, the 2017/18 HRA budget be recommended for approval;

(3) That the rent reductions proposed for 2017/18, by an average overall fall of 1% be noted;

(4) That the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2017/18 budgets and the adequacy of the reserves be noted.

Reasons for Decisions:

The decisions were necessary to assist Cabinet in determining the budget that would be placed before Council on 21 February 2017.

Other Options Considered and Rejected:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

CHAIRMAN

Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report reference: FPM-027-2016/17
Date of meeting: 6 March 2017

Portfolio: **Housing**

Subject: **Stage 1 Housing Revenue Account (HRA) Financial Options Review**

Responsible Officer: **Alan Hall (01992 564004)**

Democratic Services: **S Tautz (01992 564180)**

Recommendations

1) That the Stage 1 HRA Financial Options Review Report, produced by Simon Smith of SD Smith Consultancy Ltd and attached as Appendix 1, be considered;

2) That, having regard to the views of the Tenants and Leaseholders Federation (to be reported orally) and members of the Communities Select Committee at the meeting, one of the four options set out in the Review Report be recommended to the Cabinet as the Preferred Option;

3) That, dependent on the Preferred Option to be recommended, the relevant additional recommendations set out in Appendix 2 be recommended to the Cabinet;

4) That, irrespective of the Preferred Option recommended to the Cabinet, and whether or not the Council's Housebuilding Programme continues, the following further recommendations be made to the Cabinet in respect of the Council's development site at Pyrles Lane Nursery, Loughton:

(a) That the proposed sale of the site be subject to a requirement that the purchaser must enter into a separate Development Agreement with the Council requiring the affordable housing element of the development to be sold to the Council on practical completion;

(b) That the tenderers for the purchase of the site be required to submit their tenders on the basis of the Council paying a specified sum, through the separate Development Agreement, to purchase all of the completed affordable homes, with the amount specified in the Invitation to Tender; and

(c) That the affordable homes purchased by the Council be provided as affordable rented housing, with the purchase sum specified in the Invitation to Tender and Development Agreement being calculated on the basis of the same standard assumptions that would be used by the Council's Development Agent, East Thames, for offers to purchase affordable rented homes on Section 106 sites in Loughton (currently estimated at around £1.7million), based on the property mix approved for the Outline Planning Permission; and

5) **That SD Smith Consultancy Ltd be asked to undertake the Stage 2 HRA Financial Options Review when a decision is made by the Government on the proposed introduction of the High Value Voids Levy, and that the Review Report be considered by the Finance and Performance Management Cabinet Committee at that time to consider the issues, implications and required actions to mitigate the assessed financial impact.**

Executive Summary

The Cabinet has previously agreed the recommendations of the Council Housebuilding Cabinet Committee to expand and accelerate the Housebuilding Programme in a number of ways.

Subsequently, in September 2015, the Finance and Performance Management Cabinet Committee undertook a review of the options available to ensure that the Council's HRA does not fall into deficit, as a result of the Government's requirement that all social landlords must reduce their rents by 1% per annum for four years from April 2016. The Cabinet Committee concluded that no major decisions should be taken at that time, until further information was available on the effect of the proposed requirement that local authorities must sell higher value void properties, but that the options should be reviewed again once the financial implications of this Government proposal were known.

The Housing Portfolio Holder has decided to split the further HRA Financial Options Review into two stages, with Stage 1 based on the information that the Council knows now, to enable decisions to be made on the future of the Council Housebuilding Programme (Phases 4 to 6) and whether or not the Council wishes to reduce investment in the existing stock from the Council's Modern Homes Standard back to the Decent Homes Standard.

The Stage 1 HRA Financial Options Review Report, produced by the Council's HRA Business Planning Consultant, Simon Smith, is attached as Appendix 1, which considers four main options.

In addition to the recommendations set out above, further suggested recommendations are provided at Appendix 2a - 2d, dependent on the Cabinet Committee's Preferred Option following consideration of the Options Review Report.

Irrespective of the Preferred Option, it is proposed that the Council Housebuilding Cabinet Committee's previous recommendation that the completed affordable homes at the Pyrles Lane Nursery site, Loughton be purchased by the Council from the developer (after the Council has sold the development site) be agreed since, whichever option is chosen, there will be sufficient financial resources available within the HRA, and the detailed report below sets out a proposed way to do this.

Reasons for Proposed Decision

It is not possible to fund the Council's current policy to both undertake a Council Housebuilding Programme and maintain its existing Council properties to its Modern Homes Standard, without reviewing the Council's borrowing requirements and/or reducing capital expenditure, so it is necessary to review the options available and to make long-term decisions for the future.

Other Options for Action:

The main options are set out in the Stage 1 HRA Financial Options Review Report, attached as Appendix 1, and in the optional further recommendations set out in Appendix 2(a) – (d).

Background

1. In April 2014, the Council Housebuilding Cabinet Committee reviewed the resources available to the Council's Housebuilding Programme and considered a report on the options available for expanding and accelerating the Housebuilding Programme. One of the drivers for the review was

the increasing amount of “one-for-one replacement” Right to Buy (RTB) capital receipts (“141 Receipts”) that were accumulating, which needed to be spent if the Council was to avoid paying over 141 Receipts to the Government.

2. This review resulted in the Cabinet subsequently making a number of decisions including, in summary, to:

- Increase the number of affordable homes developed in Phases 3-6 of the Programme from 20 to 30 homes per year – This is now the basis of the current Programme;

- In principle, extend the Programme by a further 4 years to 10 years, after the original Years 3-6, with an additional 30 new affordable homes provided each year;

- Make no decisions at that time on the most appropriate way of funding an extended Housebuilding Programme, but that consideration be given at an appropriate time in the future, and before any commitments are made or expenditure incurred;

- Seek grant funding from the Homes and Communities Agency (HCA), initially, for Phase 2 of the Housebuilding Programme at Burton Road, Loughton - The subsequent bid was successful and HCA grant of £450,000 was secured for Phase 2, but the allocation was not taken up due to the effect on the Council’s 141 Receipts spend;

- Re-profile the Council’s HRA Self-Financing Reserve (which is a fund to which HRA contributions are made to build up sufficient money to be able to repay loans from the Public Works Loan Board (PWLB)), in order to release funds for the Housebuilding Programme in earlier years of the HRA Business Plan, by increasing contributions to the Reserve in later years (closer to the HRA’s first PWLB loan maturing in 2022), whilst ensuring that sufficient resources have been accumulated within the Reserve to repay this first loan on maturity – However, although some re-profiling was undertaken, it has not been possible for the HRA to make contributions to the Reserve for the past two years, due to insufficient rental income to fund capital expenditure requirements; and

- Have a contingency plan to purchase properties from the open market, should the amount of 141 Receipts still be in excess of the maximum amount that can be spent on the Housebuilding Programme, in order to avoid having to pass any 141 Receipts to the Government, with interest – This contingency was actioned, with 6 market properties purchased to date.

3. Subsequently, in September 2015, the Finance and Performance Management Cabinet Committee considered a report on the options available to ensure that the Council’s HRA does not fall into deficit, as a result of the Government’s requirement that all social landlords must reduce their rents by 1% per annum for four years from April 2016, instead of increasing their rents by CPI + 1% in accordance with previous Government guidance. The estimated loss in rental income to the Council’s HRA was assessed at that time at around £14million over the following four years and around £228million over the following 30 years (compared to the Council’s previous HRA Financial Plan expectations). The report identified a number of options available to recast the HRA Financial Plan for the future, including:

- Ceasing all or some of the funding currently available within the Financial Plan for future housing improvements and service enhancements for HRA services;
- Reducing investment in improvements to the Council’s housing stock (and reducing the Council’s Modern Home Standard accordingly);
- Reducing/ceasing the Council’s own Housebuilding Programme;
- Further borrowing for the HRA, repaid by the end of the Financial Plan period; and

- Combinations of the above.

4. The Cabinet Committee concluded that, since no immediate corrective action was required at that time, no major decisions should be made to re-cast the HRA Financial Plan until further information became available on the effect of the Government's separate proposal to require local authorities to sell higher value void properties. The Cabinet Committee also agreed that the HRA Financial Plan and the options available should be reviewed again, once the financial implications for the Council of the requirement to sell higher value void properties were known, and that decisions for the future should be made at that time.

Housebuilding Programme – Current position

5. The current position with the Housebuilding Programme is that:

- Phases 1 and 2 are on site, with the first properties at Phase 1 due to be handed-over in March 2017;

- The Section 106 affordable properties at Roydon are on site, with development agreements signed with the developer;

- Following competitive tender exercises, contractors have been appointed for the 7 separate contracts for the 34 homes in Phase 3 (Epping, Coopersale and North Weald);

- Planning permission has now been received for all the development sites in Loughton planned for Phase 4;

- Planning applications are currently being determined for the sites planned for Phase 5 (Buckhurst Hill); and

- Planning applications are being submitted and determined for sites planned for Phase 6 (at various locations).

Required sale of "higher value" void Council properties

6. Under the Housing and Planning Act 1996, the Government has said that it intends to charge councils an annual levy, which will be calculated individually for each local authority, based on:

- An expectation by the Government that councils will sell their "higher value" empty properties (still yet to be defined); and

- A Government estimate of the number of higher value empty properties voids that will arise each year and their open market value for each local authority.

7. The details of how this arrangement will operate continue to be delayed and are still awaited. The latest information available is that the Secretary of State for Communities announced towards the end of 2016 that the earliest the proposed levy will be introduced is in 2018/19. The Government's recently published Housing White Paper provides very little additional detail, other than to say that the Government intends to fund an expanded regional pilot of the proposal to extend the Right to Buy to housing association tenants. When presenting the White Paper in Parliament, the Secretary of State confirmed that decisions on the further roll-out of the scheme and funding arrangements, including the introduction of the Higher Value Voids Levy funded from the sale of higher value void council properties, will be taken once the pilot has been evaluated.

Stage 1 HRA Financial Options Review

8. In order to progress with investment decisions for the HRA moving forward, the Housing Portfolio Holder has therefore taken the decision to split the further HRA Financial Options Review into two stages, as follows:

Stage 1: Based on what the Council knows now – to enable the Cabinet to make decisions on the future of the Council Housebuilding Programme (Phases 4 to 6) and whether or not it wishes to reduce investment in the existing stock from the Council's Modern Homes Standard back to the Decent Homes Standard.

Stage 2: If and when a decision is made by the Government on the proposed introduction of the High Value Voids Levy, the implications will be modelled at that time to identify the required actions to mitigate the assessed financial impact.

9. The Council's HRA Business Planning Consultant, Simon Smith, has therefore been commissioned to undertake the Stage 1 HRA Financial Options Review - and his Report is attached as Appendix 1.

10. The Financial Options Review Report analyses the HRA projections and impact of the following four main options, with some having further sub-options:

Option 1: Continuing with the full Housing Building Programme (at least until the completion of Phase 6) and maintaining the Modern Homes Standard for existing Council homes (the Council's current policy);

Option 2: Continuing with the full Housing Building Programme and reverting to the Decent Homes Standard for existing Council homes;

Option 3: Ceasing the current Housing Building Programme and maintaining a Modern Homes Standard for existing Council homes; and

Option 4: Ceasing the current Housing Building Programme and reverting to the Decent Homes Standard for existing Council homes.

11. Members are therefore asked to read the Financial Options Review Report on this important issue at Appendix 1 in advance of the meeting. Simon Smith will be in attendance at the Cabinet Committee to present the key points from his report and to answer members' questions.

Recommendations to Cabinet on the Preferred Option

12. Once members have discussed the issues and the Cabinet Committee has decided upon its preferred option to recommend to the Cabinet, it will be necessary for the Cabinet Committee to formulate its detailed recommendations to take its Preferred Option forward. In order to assist the Cabinet Committee with this task, suggested recommendations for ***each*** of the options are provided at Appendix 2a - 2d attached and it is suggested that the Committee considers the proposed recommendations for the Preferred Option at the end of the meeting.

Purchase of affordable homes at the Pyrles Lane Nursery Development, Loughton

13. As members will be aware, Outline Planning Permission was granted in March 2016 for the development of 36 new homes, including 40% (14) affordable homes, at the site of the Council's Nursery in Pyrles Lane, Loughton.

14. When the Council Housebuilding Cabinet Committee considered the acceleration and expansion of the Council's Housebuilding Programme, it considered the potential benefits of the Council securing the affordable housing provision built on the site itself, rather than the developer selling the affordable homes to a housing association, at a subsidised price, which would otherwise be the case.

15. The Council Housebuilding Cabinet Committee therefore agreed, at that time, to recommend to the Cabinet that if/when the Cabinet decides to sell the Pyrles Lane Nursery site on the open market, the sale should be subject to a requirement that the completed affordable homes must be sold by the developer to the Council on practical completion, on agreed terms to be set out in a separate Development Agreement.

16. The Council's Development Agent, East Thames, has estimated that, based on the property mix within the Outline Planning Application and all of the standard assumptions that East Thames would use for an affordable housing development in Loughton, a housing association would offer to purchase the 14 affordable rented homes at Pyrles Lane for around £1.7m.

17. Irrespective of the Preferred Option recommended to the Cabinet, and whether or not the Council's Housebuilding Programme continues, it is suggested that the Council Housebuilding Cabinet Committee's recommendation that the completed affordable homes be purchased by the Council is put forward to the Cabinet. This is because, as demonstrated within the Financial Options Review Report, whichever option is chosen, there will be sufficient financial resources available within the HRA to do this.

18. Based on the property numbers and mix for which the development has received Outline Planning Permission, 30% of the Council's purchase costs (£510,000) could be funded from 141 Receipts, which would otherwise be paid to the Government. As explained at Paragraph 8.2 of the Financial Options Report, there is also a potential £3.5million of financial contributions that will be received through signed S106 Agreements over the next couple of years, when the relevant developments reach specified trigger points. This includes two developments currently on site (Grange Farm and Alderton Hill), with required S106 contributions totalling around £1.14million, which is about the amount required to fund the remaining 70% of the acquisition costs. Any remaining required funding should then be easily resourced.

19. It is therefore suggested that the tenderers for the purchase of the site be required to submit their tenders on the basis of the Council paying a specified sum, through the separate Development Agreement, to purchase all of the completed affordable homes, with the amount specified in the Invitation to Tender, and that the affordable homes purchased by the Council be provided as affordable rented housing, with the purchase sum specified in the Invitation to Tender and Development Agreement being calculated on the basis of the same standard assumptions that would be used by East Thames for offers to purchase affordable rented homes on Section 106 sites in Loughton, based on the property mix approved for the Outline Planning Permission.

20. It should be noted that, through this proposed approach, the Council (General Fund) will receive around the same monetary amount for the sale of the land as it would if the purchaser was allowed to sell the completed affordable housing to a housing association instead.

Resource Implications:

There are a number of major financial implications, which are set out in the Financial Options Review Report, attached as Appendix 1.

Legal and Governance Implications:

Housing Act 1985.

Safer, Cleaner and Greener Implications

None – all of the options would involve the resultant development of the sites with planning permission.

Consultation Undertaken

As previously requested by the Cabinet, and agreed with the Chairmen of the Cabinet Committee and the Communities Select Committee:

- All members of the Communities Select Committee have been invited to attend the Cabinet Committee meeting, to take part in the discussions and to put forward their views to the Cabinet Committee before it makes its recommendations to the Cabinet; and

- The Tenants and Leaseholders Federation is being consulted separately on the Financial Options Review Report, prior to the Cabinet Committee's meeting, and their views will be reported orally at the meeting.

Background Papers:

None

Risk Management:

The main identified risk is that the assumptions used within the modelling for the four options (e.g. rental income, rent increases, RTB sales, inflation, build costs) prove to be badly wrong, and that the actual resultant position is significantly worse than forecast.

However, Paragraph 7.9 of the Financial Options Review Report shows that, based on the assumptions used (listed in the Appendix of the Review Report), and dependent on the option chosen, by the end of the 30-year Financial Plan period, HRA balances of between £130million - £150million will have been accumulated. Therefore, even if the assumptions prove to be wrong, these forecast levels of HRA balances are, effectively, available as a contingency.

Equality Analysis

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 3 to the report (to follow).

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EPPING FOREST DISTRICT COUNCIL - HRA FINANCIAL OPTIONS REVIEW – STAGE 1

FEBRUARY 2017

SD SMITH CONSULTANCY LTD

CONTENTS

1. INTRODUCTION AND BACKGROUND

1.1 SD Smith Consultancy Ltd has been appointed to support the Council with regular updates of the HRA Business Plan for Epping Forest. This review is to identify options open to the Council as a way of moving forward, given that we have a little more certainty for 2017.18 in terms of Government Policy, following recent announcements and the publication of the Housing White Paper.

1.2 Following the Autumn Statement (November 2016), it was announced that the proposals for the introduction of a High Value Voids Levy have now been put back until 2018.19 at the earliest. There was also little reference to the Levy in the recently published Housing White Paper.

1.3 In addition the news that the 'Pay to Stay' initiative will no longer be introduced on a compulsory basis, in terms of HRA planning may result in right to buy applications declining on account of this.

1.4 The Council, based on financial modelling last October and concerns about extending or taking on additional borrowing, have placed a moratorium on the new build programme so that Phases 1 to 3 of the Council Housebuilding Programme and the acquisition of s106 properties at Barnfield are considered part of the current programme, with Phases 4 to 6 not progressing for the time being.

1.5 As part of this decision it has been necessary for the Council to start passing '1-4-1' right to buy receipts to the Government from September last year and into the foreseeable future as, due to the moratorium, there is an inability to spend them on additional affordable homes without a Housebuilding Programme.

1.6 Therefore in order to progress with investment decisions for the HRA moving forward the Council's Housing Portfolio Holder has taken the decision to split this further HRA Financial Options Review into two:

Stage 1: Based on what the Council knows now – to help members to make decisions on the future of the Council House Building Programme (Phases 4 to 6) and if they wish to reduce investment in the existing stock from the Council's Modern Homes Standard back to the Decent Homes Standard

Stage 2: If and when a decision is made with regards to the High Value Voids Levy – the implications will be then modelled to identify the required actions to mitigate the known financial impact at that time.

1.7 Therefore, this report covers the review of Stage 1 by analysing the HRA projections under four options by identifying the impact of:

Option 1 – Continuing with the full Housing Building Programme (at least until the completion of Phase 6) and with a Modern Homes Standard for existing Council homes (the Council's current policy)

Option 2 – Continuing with the full Housing Building Programme and reverting to the Decent Homes Standard for existing Council homes

Option 3 – Ceasing the current Housing Building Programme and maintaining a Modern Homes Standard for existing Council homes

Option 4 – Ceasing the current Housing Building Programme and reverting to the Decent Homes Standard for existing Council homes

1.8 The last review of the HRA Business Plan was in October 2016 which was modelled on the basis of delivering the Full House Building Programme (i.e. at least until Phase 6) and maintaining the Council's Modern Homes Standard for the existing stock.

1.9 In summary, that review identified that, based on the level of investment required for Option 1 above, there would be a shortfall of capital funding of £23.236million (£27.486million inflated) without extending existing, or taking on additional, borrowing. However, the review also identified that the HRA could afford to extend or increase its borrowing, with all existing and new loans paid within the 30-year period of the HRA Financial Plan.

Three alternative funding scenarios were modelled to mitigate this:

- Reprofile some of the capital expenditure from years 3 to 7 to years 8 to 13, so that each year could be fully funded; or
- Refinance the Council's first £31.8m loan due in year 7 and repay this in year 13, which then resulted in a shortfall of £0.257million which could be caught up in the following year; or
- Borrow a total of £28.724million over a period of 5 years with repayments scheduled in year 14

1.10 Prior to this a paper from us reviewing the financing of the Council House Building Programme identified risks in terms of meeting spend requirements in order to retain '1-4-1' right to buy receipts. At that stage, the Council therefore decided not to take up the grant funding from the HCA for Phase 2 and finance the development using '1-4-1' receipts instead, in order to avoid paying '1-4-1' receipts to the DCLG with interest that were derived from sales in early 2014.

1.11 In November 2016 the Council decided to place a moratorium on the new build programme for Phases 4 to 6 on account of concerns over the need to extend existing borrowing required to meet the programme and with a view to the greater uncertainty then around the introduction of the High Value Void Levy.

1.12 Therefore the Council's Cabinet concluded it prudent to pay over to the Government an element of receipts, £312,000 from the 2016.17 Quarter 1 right to buy sales and all of the £1,363,695 from Quarter 2 sales as, due to the moratorium, there was no certainty of the match spend required in the next three years and interest would have been payable at 4% above base rate if returned at a later date. Since then, a further £1,744,000 of 1-4-1 receipts have been paid to Government for Quarter 3, in line with the same Cabinet decision. Therefore, a total of around £3.4million has been paid to Government over the first three quarters of the current financial year.

The Council's Modern Home Standard and the Decent Home Standard

1.13 The options in this review refer to the national Decent Homes Standard and the Council's current own Modern Homes Standard. Therefore, it is important to explain the difference between the two standards.

1.14 The Decent Home Standard was introduced by the Government in 2000 to "ensure that all social housing meets standards of decency by 2010". For a home to meet the Decent Home Standard, it must meet the following criteria:

- It must provide a safe and healthy environment for any potential occupier or visitor;
- It must be in a reasonable state of repair, whereby either:
  - No key building components are old and, because of their condition, need replacing or major repairs: or
  - No more than one other building component is old and because of its condition needs replacing or major repair;
- It must have reasonable modern facilities and services, whereby it does not lack three or more of the following:
  - A reasonably modern kitchen (less than 20 years old)
  - A kitchen with adequate space and layout
  - A reasonably modern bathroom (30 years old or less)
  - An appropriately located bathroom and WC
  - Adequate insulation against external noise (where external noise is a problem)
  - Adequate size and layout of common areas for blocks of flats.
- It must provide a reasonable degree of thermal comfort, in terms of both effective insulation and efficient heating.

1.15 The Council met the Government's target to have 100% decent homes in 2010, and has continued to meet this target ever since. However, following the introduction of self-financing for the HRA in 2012, when significant additional financial resources became available to the HRA, the Council introduced its own Modern Home Standard. The Modern Home Standard is achieved through the Council planning its 30-Year Maintenance Programme to ensure that none of its housing stock has any building components that fail or lack any reasonable modern facilities or services. In reality, this is achieved by planning to renew building components based on shorter industry standard average life cycles, instead of extended life cycles.

1.16 The following table compares the planned life cycles under the Modern Homes Standard with the life cycles under the Decent Homes Standard

	Decent Homes Standard Element Life-cycle (Years);	Modern Homes Standard Element Life-cycle (Years);
Flat roof covering	20	16
Pitched roof covering	48	40
Rewiring	40	32
Front entrance door replacement	32	24
PVCU window replacement	40	24
Heating and boiler replacement	24	16
Kitchen replacement	28	16
Balcony resurfacing	40	40
Door entry security	20	16
Bathroom replacement	32	24
Communal water tank replacement	40	28
Lift improvements	24	24

2. THE CURRENT FINANCIAL STATUS

2.1 The financial modelling in this report is launched from 2015.16 to keep the analysis consistent with the previous reviews undertaken in the latter part of last year.

2.2 However, the modelling has been updated to take account of:

- The latest HRA and capital forecasts for 2016.17
- The proposed HRA and capital budgets for 2017.18
- The right to buy sales for Quarter 3 and revised estimates for the coming quarters
- The latest cash forecasts for Phases 1 to 3 and the s106 and market purchase acquisitions

2.3 The key changes between the 2017.18 position that was forecast in October and this review are:

- Rental Income is forecast to be lower on account of new build properties for Phases 1 and 2 not coming on stream as quickly as expected and the higher number of right to buys that have occurred/projected
- Management Costs are higher – but these increases are matched with reduced expenditure to the repairs account (as a result of past erroneous coding)
- Repairs Forecast Costs have been increased for voids and planned improvements

- Interest Charges are lower on account of reductions in the base rate, rather than increases that were previously modelled
- Interest Received is lower on account of percentage rates used for the calculations reducing from over 1% to 0.3% - based on latest performance and estimates

2.4 The latest cashflows for the Council House Build Programme have identified that, due to the slippage, there will be lower expenditure than anticipated by March 2017. As recently reported by officers to the Cabinet, this will result in a payment to Government of '1-4-1' receipts of an estimated £343,000 plus interest for Quarter 4 of 2016/17. We have analysed the '1-4-1' position for now and the future in the "Other Items" section below. It should be noted that if the full Council Housebuilding Programme were reinstated then this figure would reduce as some eligible expenditure has occurred on Phase 4 and would be allowable if this phase were to continue.

2.5 It is important to note that no assumptions have been made in terms of how much could be payable under the High Value Voids Levy and is therefore excluded from any of the following options analysis.

2.6 The Council Housebuilding Programme cash flow for all phases is continually being reviewed in terms of current build programmes but also those in a feasibility or planning stage. In terms of the latest forecasts and assumptions we have explained these in more detail within each of the options below.

3. FINANCIAL ANALYSIS – OPTION 1 - CONTINUING WITH THE FULL HOUSEBUILDING PROGRAMME AND WITH THE MODERN HOMES STANDARD FOR EXISTING COUNCIL HOMES (THE COUNCIL'S CURRENT POLICY)

3.1 This option delivers the highest number of affordable housing, whilst maintaining the existing stock at a good standard, higher than that prescribed by Government as a minimum but also ensures that the Council maximises the 1-4-1 receipts it has and will gain as a result of increased right to buy sales, without paying any to the government.

3.2 The investment levels remain as per the last review with some fine-tuning in respect of the capital expenditure predicted for 2016.17.

3.3 Along with the changes to the budget which affect the baseline position projected forward there have been some updates to the cashflow expenditure for Phases 4 to 6 as part of the full Council Housebuilding Programme which is currently held in moratorium.

3.4 The total expenditure from 2016.17 for Phases 4 to 6 amounted to a total £22.531million in the October 2016 Business Plan review.

3.5 The latest cashflow forecasts anticipate new build expenditure at £24.411million. This is an increase of £1.880million. There are a number of factors that explain the difference and are as follows:

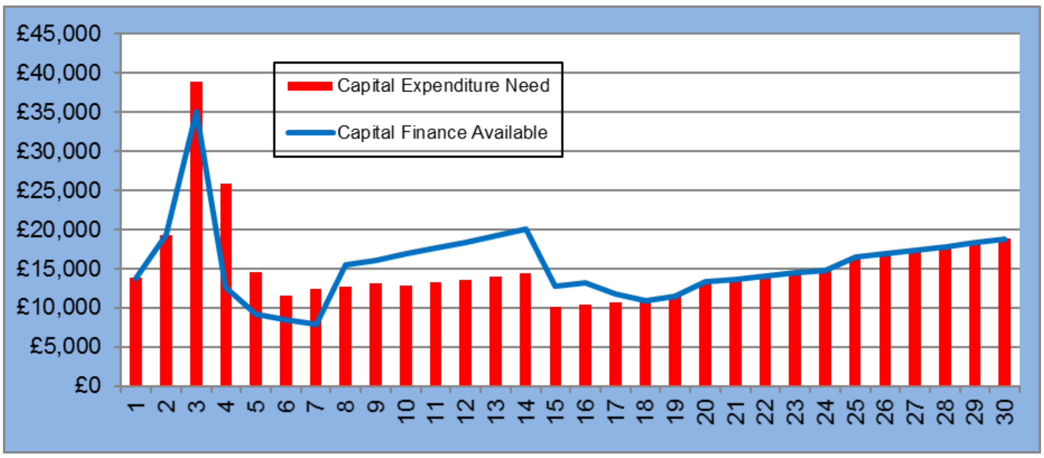
- Update on the required expenditure for Phases 4 to 5 based on latest feasibility studies, planning applications and benchmarked costs from the tenders for Phase 3
- With regards to Phase 6 there has been a revisit to the cash flow forecasts on the basis that some of the sites have not been successful with their planning applications, thus reducing the number of affordable units by a small margin.

3.6 As before we have assumed to assess the baseline position that;

- No additional borrowing is undertaken
- The £31.8million loan that matures in 2021.22 (year 7) is repaid through sufficient contributions made to the Self-Financing Reserve from 2018.19 onwards
- The HRA minimum balance remains at £2million
- The Council fully utilises the ‘1-4-1’ receipts retained to date and projected in the future to use towards the full Council Housebuilding Programme, with the exception of a reduced return of receipts estimated at £0.159million (as expenditure incurred already on Phase 4 can be included). In addition, we have assumed recovery of receipts already paid to Government of £1.676million, which we understand may be possible up to June 2017 (provided Government does not re-allocate them), on account of having the relevant forecast expenditure needed. Also, the receipts from Q3 (December) 2016 totalling £1.744million will also not be paid to the Government on this basis.
- No S106 affordable housing financial contributions are used, although it should be noted that committed S106 receipts of around £3.5million are expected to be received over the next few years from signed 106 Agreements.

3.7 Given that the HRA must maintain its minimum balance and the debt portfolio remain as is it is the projected capital funding position that will dictate the shortfalls and this is demonstrated in the graph below

3.8 Capital Financing Position – Option 1 – Full CHP and Modern Standard £’000



3.9 The required capital expenditure inclusive of the new build expenditure is represented by the vertical red columns with the financing available shown by the horizontal blue line.

3.10 The key points are that in years 3 (2017.18) to 7 (2021.22) the capital expenditure is higher than the resources available to the HRA. From year 8 the resources are greater than programmed expenditure, so in effect the modelling is showing the 'catch-up' position. The capital shortfall over this period is £30.016million.

3.11 In order to mitigate this shortfall, if this option were selected by the Council, there are three possible ways to finance this:

3.11.1 <u>Re-profile the Capital Expenditure</u>

In order to ensure that the HRA remains viable the following reductions would have to be made from the proposed investment of stock (excluding inflation):

2017.18	£3.864million
2018.19	£13.269million
2019.20	£5.382million
2020.21	£3.081million
2021.22	£4.420million
Total	£30.016million

The 2018.19 reduction of £13.269million, would not be possible given that investment in stock for that year is estimated at £12.968million. Therefore, the required combined saving for 2018.19 and 2019.20 of £18.651million would have to be split more equally over these two years. However, Council officers have advised that to reduce stock investment by over £9million per annum for two years would be extremely difficult and would affect the continuity of works contracts, that could also incur penalties.

In the following ten years, the above expenditure could be added to the programmed expenditure to, in effect, reprofile the expenditure. The reductions would equate to approximately 47.4% of the original expenditure. Inflation is added where the expenditure occurs later in the plan, which equates to £6.097million cumulatively until the re-profiling is complete, resulting in a total £36.113million.

3.11.2 <u>Refinance the £31.800million Loan Repayable in Year 7</u>

The changes to new build expenditure and budgets used for a baseline to project forward mean that the HRA cannot fully finance its capital expenditure even with re-financing in year 7 and utilising the balances from the Self-Financing Reserve. We estimate that there would still be still be a capital shortfall of £2.412million or £2.529million inflated. This would then leave two options:

1. To reprofile the capital expenditure by reducing it in years 4 & 5 and increasing it in years 6 to 7 to compensate.
2. To borrow short-term in year 4 and repay the loan in year 7

In either instance the refinancing of the loan in year 7 would mean taking out a new 8-year loan for a slightly reduced value of £31.300million with repayment in 2031.32 (year 17) or a series of smaller loans repaying gradually over the same period.

3.11.3 <u>Take out additional Short-Term Borrowing</u>

We assessed that a total of £33.460million of loans could be taken out over years 3 to 7 and comfortably repaid by year 18. The amount borrowed is higher than the £29.299million due to the fact that interest needs to be applied of which we have applied a prudent rate of 3%.

The loan drawdowns would be as follows:

Drawdown	Amount	Repayment
2017.18	£6.370m	2027.28
2018.19	£6.550m	2029.30
2018.19	£6.550m	2032.33
2019.20	£5.370m	2028.29
2020.21	£3.180m	2023.24
2021.22	£5.440m	2025.26

3.12 Whatever the option financed the HRA's debt would then remain on course for repayment by year 27 with HRA balances increasing from year 17, which could be used to finance service improvements beyond that date as discussed in section 8.

<u>Sub-Option 1a – Purchase of Affordable Units from the Pyrles Lane Nursery Development</u>

3.13 In addition to Phases 4 to 6 there is the potential to purchase affordable units from the proposed Pyrles Lane Nursery site.

3.14 This sub-option assumes the purchase of 14 affordable units from the Council's selected developer at an assumed value of £175,000 per unit, with the ability to use '1-4-1' receipts (total £2.450million).

3.15 Using the same scenarios for ensuring funding for the scheme, the table below shows the impact of adding these properties to the Council Housebuilding Programme:

	Base	**With Pyrles Lane**
Re-Profile of Capital Expenditure	Shortfall: £30.016m (£36.113m Inflated)	Shortfall: £31.554m (£38.073m Inflated)
Refinance Year 7 Loan of £31.8m	£31.300m – year 17 Capital S/F £2.412m	£32.640m – year 17 Capital S/F £3.511m
Short-Term Loan	£33.460m – year 18	£35.030m – year 15

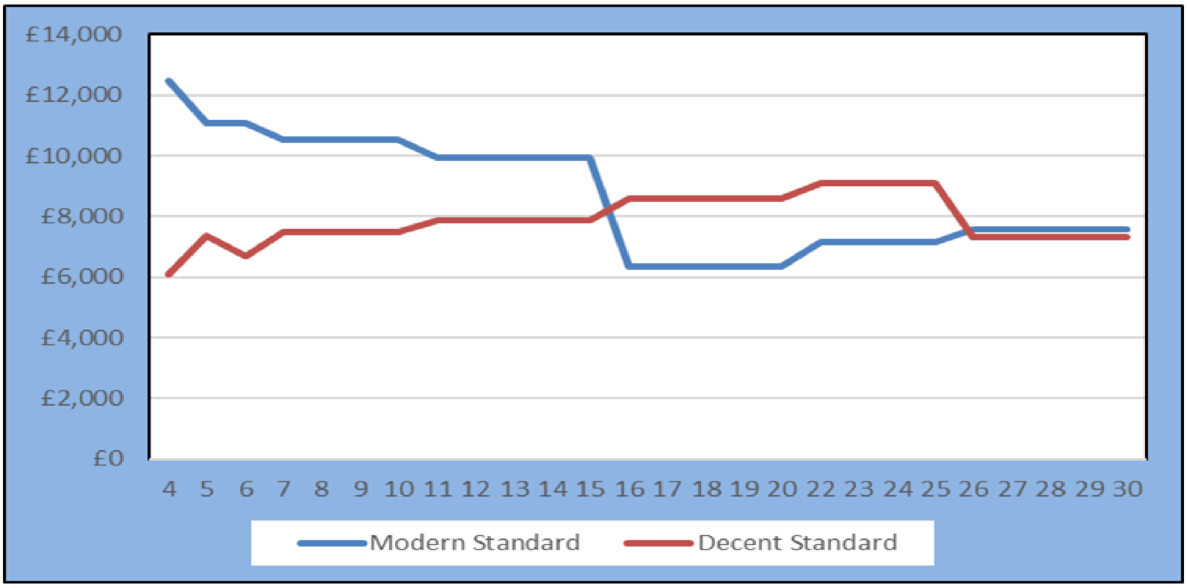
3.16 Given the additional net expenditure for the assumed purchase of the affordable units at Pyrles Lane, the capital shortfalls, or borrowing requirement extends. Whilst not demonstrated in the above table, the scheme would be 30% funded from available '1-4-1' receipts, saving a potential £0.735million being paid to Government.

4. FINANCIAL ANALYSIS – OPTION 2 - CONTINUING WITH THE FULL HOUSEBUILDING PROGRAMME AND REVERTING TO THE DECENT HOMES STANDARD FOR EXISTING COUNCIL HOMES

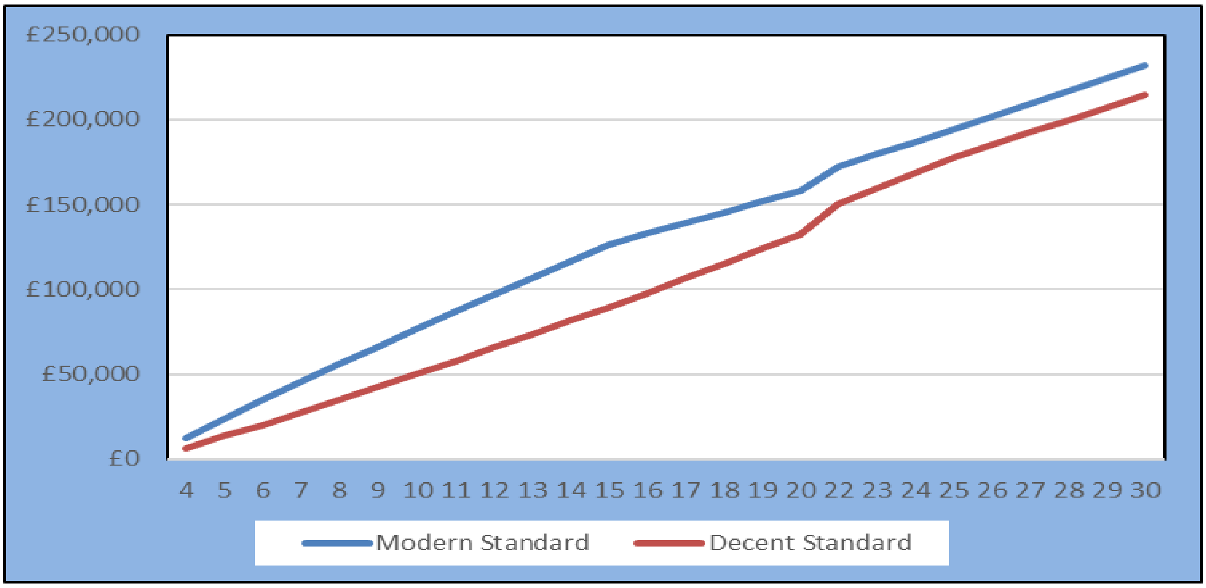
4.1 This option seeks to deliver the highest number of affordable housing on identified sites, but in order to assist funding the full Council Housebuilding Programme the level of investment on existing stock drops from the Modern Standard to the Government's minimum Decent Homes Standard.

4.2 The differences in the required levels of expenditure is shown in the graphs below:

The first graph shows the annual (uninflated) expenditure per year from year 4. The reader should note that, from year 7, the outputs from the stock condition database are produced in 5-year bands, hence the flat lines in expenditure for 5 year periods.



The following graph shows the **cumulative** expenditure for each of the two standards from year 4. In monetary terms (without inflation) the overall expenditure is £231.7million for the Modern Homes Standard, in comparison to £214.3million for the Decent Homes Standard, a difference of £17.4million over 27 years.

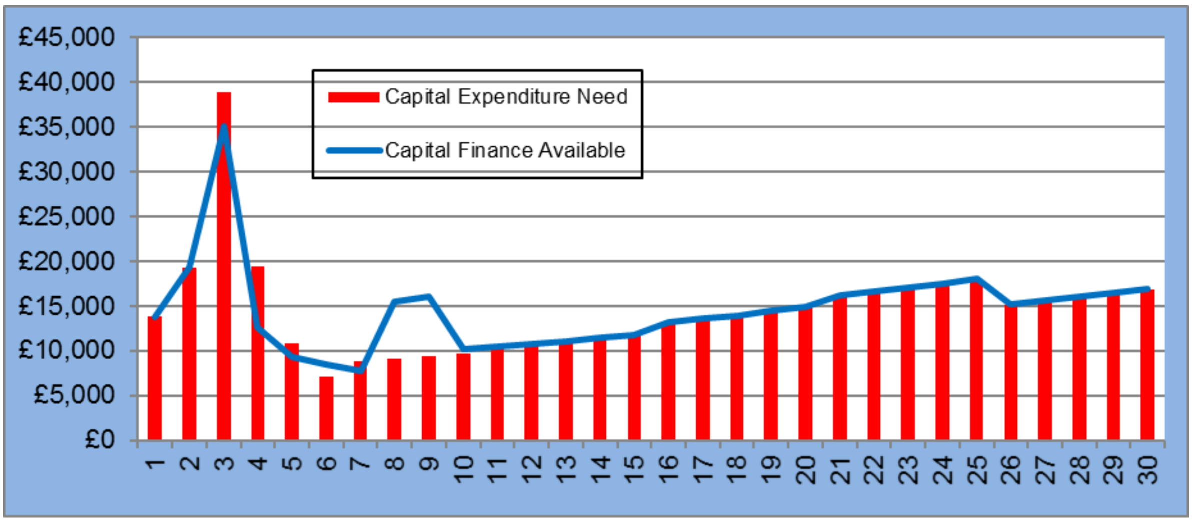


4.3 The key benefit for reducing to the Decent Homes Standard is in the reduction of required expenditure in the earlier years (i.e. years 4 to 15). All the other aspects in the capital programme for 2017.18 remains.

4.4 The main differences between the two standards are that major components such as kitchens, bathrooms, roofing and heating have their life-cycles extended. Therefore, items that would have been replaced in the early years are then replaced at a later stage.

4.5 The results of reducing the programme is demonstrated in the graph below

4.6 <u>Capital Financing Position – Option 2 – Full CHP and Decent Homes Standard £'000</u>



4.7 Although the reduction in investment expenditure is still insufficient in the early years to prevent a shortfall in capital funding, it is far less than for Option 1. The shortfalls occur between years 3 & 5 and amount to £12.213million.

4.8 Again to mitigate this shortfall, if this option were selected by the Council, there are three possible ways to finance this:

4.9.1 Re-profile the Capital Expenditure

In order to ensure that the HRA remains viable the following reductions would have to be made from the proposed investment of stock (excluding inflation):

2017.18	£3.864million
2018.19	£6.836million
2019.20	£1.513million
Total	£12.213million

The 2018.19 reduction of £6.836million, would only just be possible given that investment in stock for that year is estimated at £6.535million. Therefore, we suggest the required combined saving for 2018.19 and 2019.20 of £8.349million would have to be split more equally over these two years.

In the following five years, the above expenditure would be added to the programmed expenditure to in effect reprofile the expenditure. The reductions would equate to approximately 41.9% of the original expenditure. Inflation is added where the expenditure occurs later in the plan, which equates to £1.473million cumulatively until the re-profiling is complete, resulting in a total £13.686million. Again, this would cause issues with the current procurement of the capital programme.

However, in discussion with officers, it is clear that such a further significant reduction in expenditure would be unsustainable, after already reverting to the Decent Homes Standard, which is generally seen as the national basic minimum standard for social housing.

4.9.2 Refinance the £31.8million Loan Repayable in Year 7

With not contributing as much to the Self-Financing Reserve in the earlier years the HRA can sustain the level of expenditure. In year 7 though it would need to refinance £12.940million of the £31.800million loan repayment. In addition, we project that there would be a capital shortfall still of £0.659million that would either have to be financed (perhaps through S106 financial contributions that come to fruition) or expenditure reprofiled ahead of year 7 with an inflated cost of £0.683million.

We estimate that this refinanced loan of £12.940million could be repaid within just three years (2024.25), based again on an interest rate of 3%.

4.9.3 Take out additional Short-Term Borrowing

We assessed that a total of £12.330million of loans could be taken out over years 3 to 5 and comfortably repaid by year 10. Furthermore the £31.8million loan could not be fully repaid leaving £1.220million that would need to be refinanced resulting in a total net borrowing of £13.550million.

The loan drawdowns would be as follows:

Drawdown	Amount	Repayment
2017.18	£3.870m	2022.23
2018.19	£6.830m	2023.24
2019.20	£1.630m	2022.23
2021.22	£1.220m	2024.25

4.10 Again, the future HRA balances generated are assessed in section 8 in terms of the service improvements that can be generated. The projected HRA balances are shown in section 7.

Sub-Option 2a – Purchase of Affordable Units from the Pyrles Lane Nursery Development

4.11 This sub-option again assumes the purchase of 14 affordable units at an assumed value of £175,000 per unit, with the ability to use ‘1-4-1’ receipts (total £2.450million).

4.12 Using the same scenarios for ensuring funding for the scheme the table below shows the impact of adding these properties to the Council Housebuilding Programme:

	Base	With Pyrles Lane
Re-Profile of Capital Expenditure	Shortfall: £12.213m (£13.686m Inflated yr 10)	Shortfall: £13.840m (£15.545m Inflated yr 11)
Refinance Year 7 Loan of £31.8m	£12.940m – year 10 Capital S/F £0.659m	£14.360m – year 10 Capital S/F £0.647m
Short-Term Loan	£13.550m – year 10	£15.180m – year 10

4.13 As before with sub-option 1a, the additional net expenditure for the assumed purchase of the affordable units at Pyrles Lane, the capital shortfalls, or borrowing requirement extends. Whilst not demonstrated in the above table, the scheme would be 30% funded from available ‘1-4-1’ receipts, saving a potential £0.735million being paid to Government.

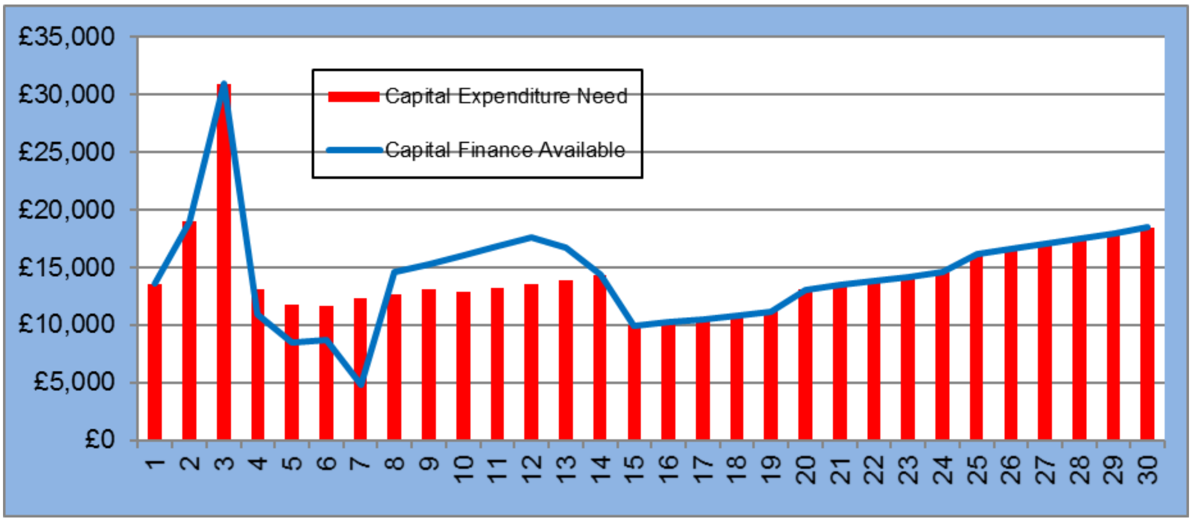
5. FINANCIAL ANALYSIS – OPTION 3 - CEASING THE CURRENT HOUSEBUILDING PROGRAMME AND MAINTAINING THE MODERN HOMES STANDARD FOR EXISTING COUNCIL HOMES

5.1 This option maintains stock investment in line with current plans but continues with the moratorium of no further Council Housebuilding Programme and short to medium term capital budgets.

5.2 We have maximised the use of '1-4-1' right to buy receipts, though it is inevitable that without the required levels of expenditure through the Housebuilding Programme these receipts will in future need to be paid to the Government. For clarity, we have shown in Section 7 a table that shows anticipated receipts and those that will need to be paid to the DCLG under both this and Option 4.

5.3 With the removal of £24.411million of expenditure on the full Council Housebuilding Programme the capital financing forecasts are as follows:

5.4 Capital Financing Position – Option 3 – Cease CHP and Modern Standard £'000



5.5 The graph demonstrates that despite the withdrawal of the full Council Housebuilding Programme there will still be a shortfall projected in years 4 to 7. This totals £15.918million and is higher than might have been expected based on the levels of expenditure withdrawn, but is mainly due to the ability to fully use the Council's '1-4-1' receipts.

5.6 As before, to mitigate this shortfall, if this option were selected by the Council, there are three possible ways to finance this:

5.7.1 Re-profile the Capital Expenditure

In order to ensure that the HRA remains viable the following reductions would have to be made from the proposed investment of stock (excluding inflation):

2018.19	£2.178million
2019.20	£3.231million
2020.21	£2.935million
2021.22	£7.574million
Total	£15.918million

In the following six years, the above expenditure would be added to the programmed expenditure to in effect reprofile the expenditure. The reductions would equate to approximately 32.8% of the original expenditure. Inflation is added where the expenditure occurs later in the plan, which equates to £1.989million cumulatively until the re-profiling is complete, resulting in a total £17.907million.

However, it should be noted that if this option was chosen and these reductions made, it would not be possible to maintain the full Modern Home Standard, since there would be insufficient funding.

5.7.2 <u>Refinance the £31.8million Loan Repayable in Year 7</u>

With not contributing as much to the Self-Financing Reserve in the earlier years the HRA can sustain the level of expenditure. In year 7 though it would need to refinance £16.810million of the £31.800million loan repayment.

We estimate that this new loan of £16.810million could be repaid within six years (2027.28), based again on an interest rate of 3%.

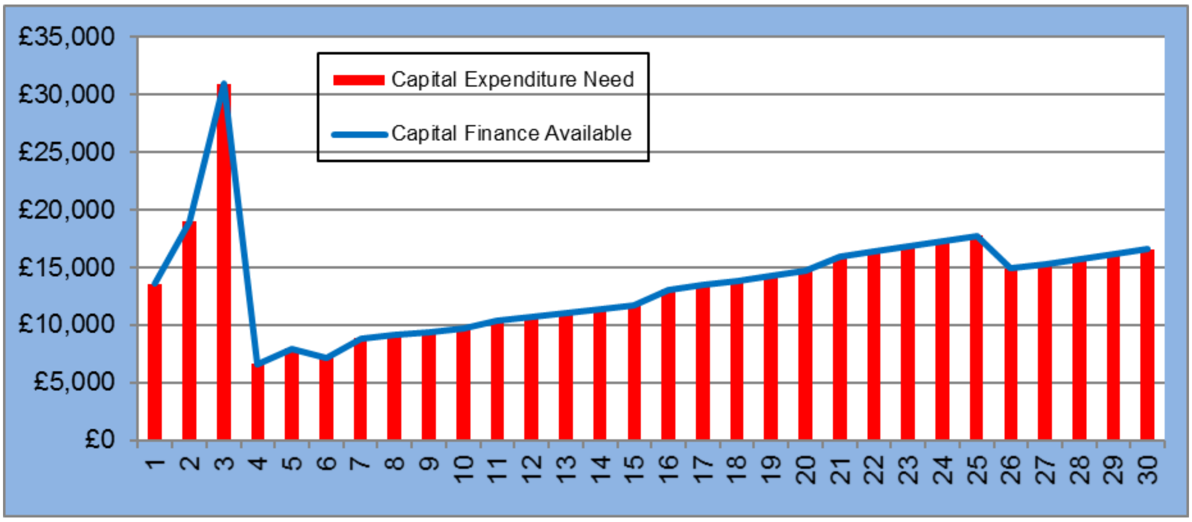
5.7.3 <u>Take out additional Short-Term Borrowing</u>

We assessed that by matching the contributions to the Self-Financing Reserve based on affordability there is no capital shortfall until year 7 which mirrors the above position of having to refinance the year 7 loan, albeit at a lower level.

6. FINANCIAL ANALYSIS – OPTION 4 – CEASING THE CURRENT HOUSEBUILDING PROGRAMME AND REVERTING TO THE DECENT HOMES STANDARD FOR EXISTING COUNCIL HOMES

6.1 Finally, this option will reduce both expenditure on the new build programme and the capital financing.

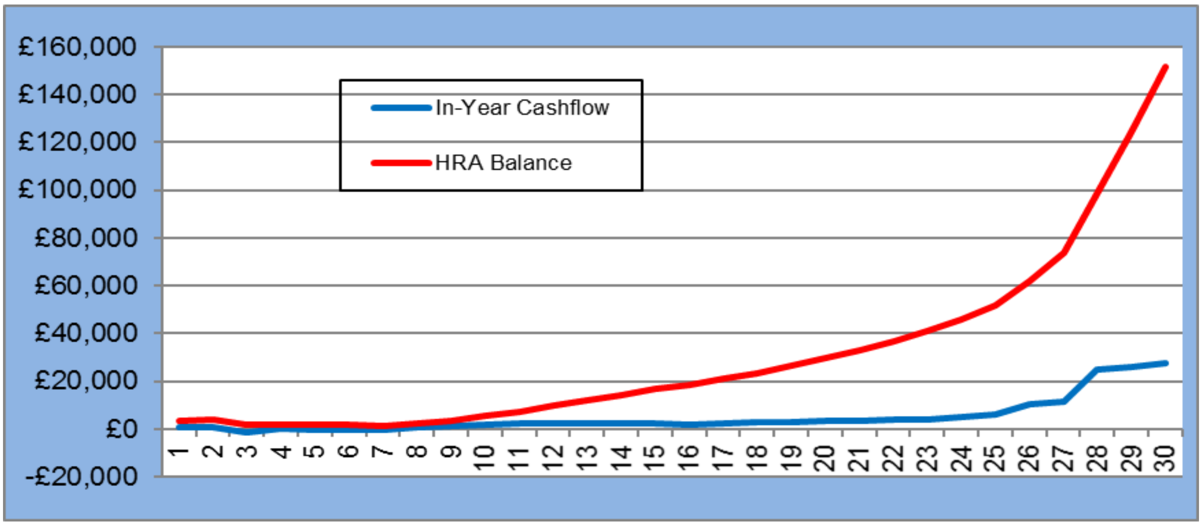
6.2 Capital Financing Position – Option 4 – Cease CHP and Modern Standard £'000



6.3 With this option there is no need for any additional borrowing, stock investment re-profiling or extending any loan repayment periods.

6.4 In fact projected HRA balances are demonstrated in the table below.

6.5 Projected HRA Balances – Option 4 – Current CHP and Modern Standard £'000



6.6 Again, this provides a very positive picture in that balances start building in the HRA from year 8 (2022.23) whilst sufficient provision is being made to repay all of the loans when they fall due, yet still resulting in HRA balances of around £150million in year 30.

6.7 The actual surpluses that this option creates is best demonstrated, in comparison with the other options, with projected HRA balances in section 7 and the service enhancements analysis in Section 8 below.

7. HRA BALANCES, SURPLUSES AND '1-4-1' RIGHT TO BUY RECEIPTS

'1-4-1' Receipts

7.1 As identified in this report the Council has already paid a total of £3.42million to the Government for the '1-4-1' receipts retained for Quarters 1 - 3 of this financial year. This was to avoid interest charges on account of not being able to spend the required 1-4-1 receipts within three years of the receipt occurring, due to the current moratorium on the Council House Building Programme and the possibility of Phases 4 to 6 not continuing.

7.2 The table below shows a conservative estimate of the predicted '1-4-1' receipts that could be available over the next few years, based on a weighted average of past values and anticipated sales. It then goes on to show the projected receipts that would have to be paid to the Government under the Options 1 and 2 (maintaining the current Council House Build Programme) and Options 2 and 3 (ceasing the Council House Building Programme). It also shows the position for Options 1a and 2a (the purchase of the S106 affordable units at the Pyrles Lane Nursery development).

Quarter	No of Sales	'1-4-1' Receipts	Receipts Returned Options 1 & 2 Maintain CHP	Receipts Returned Options 3 & 4 Cease CHP	Receipts Returned Options 1a & 2a Maintain CHP
2016.17 1-3	37	£3.897m	£-	£3.420m	£-
2016.17 – 4	9	£0.615m	£-	£0.443m	£-
2017.18 – 1	7	£0.452m	£-	£0.379m	£-
2017.18 – 2	8	£0.547m	£-	£0.547m	£-
2017.18 – 3	8	£0.548m	£-	£0.548m	£-
2017.18 – 4	7	£0.454m	£-	£0.454m	£-
2018.19 – 1	7	£0.475m	£-	£0.475m	£-
2018.19 – 2	8	£0.578m	£-	£0.578m	£-
2018.19 – 3	8	£0.580m	£-	£0.580m	£-
2018.19 – 4	7	£0.483m	£0.348m	£0.483m	£0.096m
2019.20 – 1	4	£0.197m	£0.483m	£0.197m	£0.483m
2019.20 – 2	4	£0.205m	£0.205m	£0.205m	£0.205m
2019.20 – 3	3	£0.102m	£0.102m	£0.102m	£0.102m
2019.20 – 4	3	£0.103m	£0.103m	£0.103m	£0.103m
2020.21 – 1	3	£0.107m	£0.107m	£0.107m	£0.107m
2020.21 – 2	3	£0.114m	£0.114m	£0.114m	£0.114m
2020.21 – 3	3	£0.115m	£0.115m	£0.115m	£0.115m
2020.21 – 4	3	£0.115m	£0.115m	£0.115m	£0.115m
2021.22 – 1	3	£0.121m	£0.121m	£0.121m	£0.121m
2021.22 – 2	3	£0.127m	£0.127m	£0.127m	£0.127m
2021.22 – 3	2	£-	£-	£-	£-
2021.22 – 4	2	£-	£-	£-	£-

TOTAL (6 years)	**142**	**£9.935m**	**£2.137m**	**£9.213m**	**£1.688m**

7.3 As can be seen, if the Council Housebuilding Programme is ceased (Options 3 or 4), between £7.076million and £7.525million will have to be paid to Government over a 6-year period, depending on the option chosen. As the receipts will have been paid after each quarter's return there will be no interest payable.

7.4 The sale number estimates are prudent, and there is a possibility that there will be a higher number of sales than estimated in the modelling. If this does materialise, then if the full Council Housebuilding Programme continues it is likely that less '1-4-1' receipts would need to be financed by loan or re-profiling of the stock investment programme, or a greater value of receipts would have to be paid to Government.

7.5 We estimate that if the current Council Housebuilding Programme moratorium continues, potentially only £0.722million of the future estimated £9.935million of '1-4-1' receipts could be utilised on Phases 1 to 3, with £9.213million having to be paid to Government. Conversely, the option of added Pyrles Lane to the current Council Housebuilding Programme results in the least amount of receipts being paid to Government.

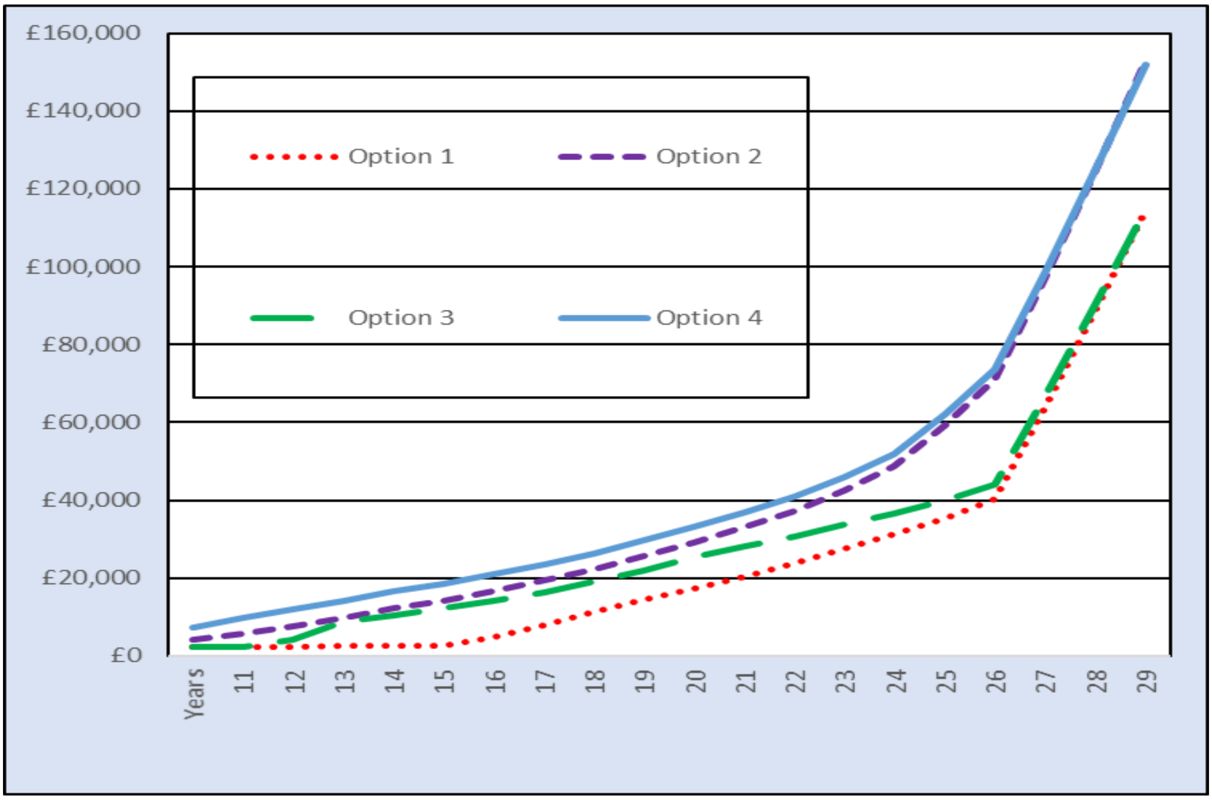
7.6 Officers have pursued various options to minimise the payment of 1-4-1 receipts to Government, which include investigating the provision of grants to housing associations funded by '1-4-1' receipts, instead of HCA grant but to date none have been able to progress.

HRA Balances and Surpluses

7.7 For all of the options the financial position improves once the £31.8million loan (refinanced or not) is repaid.

7.8 The following graph demonstrates the forecast HRA balances for each of the four main options.

7.9 Projected HRA Balances For All Four Options



7.10 For the above graph we have assumed the funding solution for shortfalls to be the one where capital expenditure is deferred by re-profiling rather than additional borrowing and the graph excludes the use of any service enhancements.

7.11 Options 2 & 4 (with the reversion to the Decent Homes Standard) have the greatest surpluses on account of the reduced investment in the stock.

7.12 What is most notable is that Options 1 & 3 have similar levels of HRA balances, as do Options 2 & 4, which demonstrates that over the period of the Plan, irrespective of whether or not the Decent Home or Modern Home Standard is adopted, if the Housebuilding Programme continues, the additional properties' net rental income (and the use of '1-4-1' receipts) pay for their construction over this period, resulting in the provision of additional affordable Council homes without any detrimental effect on the HRA.

7.13 In reality, it is likely that the balances over the set minimum balance of £2million (inflated) in later years can either be used to repay some of the HRA loans early or to identify potential service enhancements as referred to in Section 8 below.

8. OTHER ISSUES

Use of s106 Contributions

8.1 To date the Council Housing Programme has been part-funded with s106 contributions. To date there has been £2.326million used to fund the Council House Building Programme with an additional £0.510million budgeted in 2016.17. Currently there are no contributions modelled for 2017.18 and beyond in all options.

8.2 However, there is a potential £3.496million of further contributions that will be received through signed S106 Agreements over the next couple of years, when the developments reach specified trigger points, including two developments currently on site with required S106 contributions totalling in excess of £1.14million. In addition, based on past experience, it is likely that further S106 Agreements will be signed in the future requiring additional financial contributions for affordable housing in lieu of on-site provision. However, it is not possible to predict when this will happen and the amounts involved.

8.3 There is the potential to use such receipts to contribute to the funding of Phase 3 of the Council House Building Programme given that there is a net funding requirement of £4.586million after the application of '1-4-1' receipts.

8.4 Without a Council House Building Programme beyond Phase 3 the Council would have difficulty using these receipts should there be no affordable homes programme to put towards, although the Council could possibly purchase a smaller number of affordable rented homes on other S106 sites, in the same way as for Barnfield, Roydon, but 30% funded from 141 receipts and 70% funded from S106 financial contributions.

Service Improvements

8.5 In the October 2016 Business Plan Review it was identified that, subject to one of the options for funding the capital shortfalls being used, a total of £80million of service enhancements could be introduced from year 11 to 30.

8.6 With all of the options referred to in this report, the modelling demonstrates that the HRA is more than viable, with surpluses being generated generally from year 12 and earlier in Options 2 and 4.

8.7 The table below shows the potential funding for service improvements that can be provided, with the values exclusive of inflation, for each of the four options in five year periods over the life of the plan. The modelling ensures that the HRA maintains its minimum balance and that sufficient contributions are made to the Self-Financing Reserve in order to repay the loans taken out in March 2012.

8.8 Table of potential service enhancements for each option, without inflation

£m	Option 1 Modern Std Maintain CHP	Option 2 Decent Std Maintain CHP	Option 3 Modern Std Cease CHP	Option 4 Decent Std Cease CHP
Years 1-5	£-	£-	£-	£-
Years 6-10	£-	£0.600m	£-	£4.075m
Years 11-15	£-	£6.325m	£5.900m	£6.125m
Years 16-20	£7.150m	£7.675m	£7.200m	£7.200m
Years 21-25	£8.450m	£11.150m	£5.850m	£10.375m
Years 26-30	£38.900m	£48.225m	£36.225m	£46.125m
TOTAL	**£54.500m**	**£73.975m**	**£55.175m**	**£73.900m**

8.9 We have assumed the funding solution for shortfalls to be the one where capital expenditure is deferred by re-profiling rather than additional borrowing.

8.10 As identified in Section 7, Options 2 & 4 have the greatest surpluses available to finance service enhancements due to the lower spend requirements for the Decent Home Standard over the course of the Plan period. In addition, Options 1 & 3 allows for similar levels of service enhancement respectively. As explained in Section 7, this is due to the ongoing use of significant 1-4-1 receipts and the net additional rents collected from the additional Council homes over the period of the Plan.

<u>Alternative approach for Options 3 and 4</u>

8.12 If the Council decides to cease its Housebuilding Programme under Options 3 or 4, the main sub-option available for the Council to deal with the housebuilding sites that have received planning permission would be to sell the sites on the open market, with planning permission, with the Council receiving capital receipts totalling an estimated £8.165million. Under the pooling arrangements either 100% of the capital receipts can be retained, provided that they are used for affordable housing purposes (perhaps to purchase completed affordable rented homes from developers for S106 sites) or 50% (£4.083million) can be retained to be used for any other Council purpose, with the remaining 50% (£4.082million) having to be paid to the Government under the capital receipts pooling arrangements.

8.13 It would be possible to retain a greater percentage of the receipts if used for General Fund purposes if it could be proved that it was for "regeneration purposes" and accounting for it through a 'Capital Allowance' account.

8.14 We were commissioned separately by the Council to advise on the feasibility of a local housing company being established, and our report will be formally reported to the Council Housebuilding Cabinet Committee in due course, but the initial view is that this would not be an appropriate way forward for the Council.

DCLG Housing White Paper – Fixing our Broken Market

8.15 The Government has recently published its white paper on the future supply of housing. In the main the paper focuses on the thrust to quickly deliver homes where there is land and need which focuses on Council's planning departments and local plans.

8.16 There is no new or additional methods announced for local authorities to do the actual build, nor registered providers other the HCA funding programme. However, a 'delivery' test will be put in place to ensure local authorities will build within expectations with the threat of intervention. Therefore, any additional homes built will count within this test.

8.17 The only reference to the Government's policy to require local authorities to sell their higher value void properties, in order to fund a levy paid to Government, is that further consideration of this policy will wait until after the latest Government pilot schemes for giving housing association tenants the Right to Buy has been completed.

9. SUMMARY POSITION

9.1 In order to summarise the position the table below identifies the key facts for each of the options.

	Option 1 Modern Std Maintain CHP	Option 2 Decent Std Maintain CHP	Option 3 Modern Std Cease CHP	Option 4 Decent Std Cease CHP
Number of Additional New Affordable Homes	105	105	-	-
Capital Investment in Existing Stock 5 Years (2018-2023)	£55.705m	£35.094m	£55.705m	£35.094m
Capital Expenditure Shortfall Projected	£30.016m £31.554m (a)	£12.213m £13.840m (a)	£15.918m	£-
If Capital Expenditure Reprofiled – the inflated cost and year of 'catch up'	£36.113m Yr 17 £38.073m (a) Yr 17	£13.686m Yr 10 £15.545m Yr 11	£17.907m Yr 13	N/A
If Short-Term Borrowing is Needed for Capital Shortfall instead – Amount & Year of Repayment	£33.460m Yr 18 £35.030m (a) Yr 18	£13.550m Yr 10 £15.180m (a) Yr 10	As Below	N/A

If £31.8million due to be repaid in Year 7 is refinanced – What needs to be re-financed, what year could it be repaid and what additional borrowing would be required	£31.300m Yr 17 £32.640m (a) Yr17 £2.412m £3.511m (a)	£12.940m Yr 10 £14.360m (a) Yr 10 £0.659m £0.647m (a)	£16.810m Yr 13 N/A	N/A
'1-4-1' Receipts paid to Government	£2.137m £1.688m (a)	£2.137m £1.688m (a)	£9.213m	£9.213m
Level of Service Enhancements Possible in later years	£54.500m	£73.975m	£55.175m	£73.900m

9.2 The key considerations are that by re-implementing the full Council Housebuilding Programme the HRA will have greater resources in the longer-term and it prevents an estimated net £7.076million of receipts being paid to Government. However, whichever level of capital investment is chosen moving forward, there will be a short-term borrowing requirement of either £13.550million or £33.460million repayable over 7 to 15 years.

9.3 The reduction of investment from Modern to Decent Homes carries financial advantages, although this could be offset by increasing of revenue repairs or risk tenant dissatisfaction.

9.4 The re-profiling of the Modern Home Standard to meet available resources could be considered similar to that of the Decent Homes Standard, but the cost of doing so will be in inflated prices when the programme is delivered in later years. The cost of borrowing instead would be very similar to prevent any re-profiling.

9.5 If the Council wishes to avoid any additional or extension of existing borrowing, Option 4 with the decent home standard and the cessation of the Council Housebuilding Programme is the only solution. The disadvantages of this would be that an estimated £9.213million of receipts would have to be paid to the Government. The only upside could be that such reductions will generate surpluses into the mid-term of the plan, which are identified as service enhancements, which could be used to enhance slightly the Decent Homes Standard at that time.

10. APPENDIX – KEY FINANCIAL ASSUMPTIONS

1. All rents decreasing by 1% for 4 years commencing 2016.17
2. Rents increasing by CPI plus 1% after this period
3. 7% 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 0.75%
6. Right to Buy levels at 30 per year for the next two years then gradually reduce
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. Service Charge income increasing by RPI only
10. Non Dwelling Rents (Garages) increasing by RPI only
11. Norway House Rents increasing by RPI only
12. Contributions from the General Fund (for service) increasing by RPI only
13. Management Costs increasing by RPI only
14. Repair Costs increasing by RPI only (after Repairs Fund adjustments)
15. Capital Improvement Costs increasing by RPI plus 0.25% from year 6
16. Base rate for variable interest calculations increasing from 0.5% to 2.0% by year 5

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Additional Recommendations if Option 1 is selected as the Preferred Option

1) That the moratorium on the Council Housebuilding Programme be lifted and that Phases 4-6 of the Programme be undertaken;

2) That the 141 Receipts "temporarily" paid to the DCLG be recovered as soon as possible, in order to help fund the Housebuilding Programme;

3) That financial contributions received by the Council from Section 106 Agreements, in lieu of on-site affordable housing provision, continue to be utilised for the Council Housebuilding Cabinet Committee;

4) That, in the first instance, tenders be invited for Phase 4 of the Housebuilding Programme;

5) That the Council continues with its adoption of the Modern Homes Standard, with the currently planned levels of stock investment; and

6) That the Director of Resources reports to a future meeting of the Finance and Performance Management Cabinet Committee on the most appropriate way to arrange the required additional HRA borrowing for this option.

Additional Recommendations if Option 2 is selected as the Preferred Option

1) That the moratorium on the Council Housebuilding Programme be lifted and that Phases 4-6 of the Programme be undertaken;

2) That the 141 Receipts "temporarily" paid to the DCLG be recovered as soon as possible, in order to help fund the Housebuilding Programme;

3) That financial contributions received by the Council from developers through Section 106 Agreements, in lieu of on-site affordable housing provision, continue to be utilised for the Council Housebuilding Cabinet Committee;

4) That, in the first instance, tenders be invited for Phase 4 of the Housebuilding Programme;

5) That the Council reverts to the Government's Decent Homes Standard as soon as practicably possible, with reduced levels of stock investment, having regard to contractual commitments under Framework Agreements; and

6) That the Director of Resources reports to a future meeting of the Finance and Performance Management Cabinet Committee on the most appropriate way to arrange the required additional HRA borrowing for this option.

Appendix 2(c)

Additional Recommendations if Option 3 is selected as the Preferred Option

1) That the Council Housebuilding Programme be ceased and that no further phases be undertaken after Phase 3;

2) That 141 Receipts:

   (a) Paid temporarily to the DCLG to date not be recovered;

   (b) Previously received for allocation to the Council Housebuilding Programme, that will now not be required, be paid to the DCLG permanently, as soon as possible, in order to minimise the amount of interest to be paid to the DCLG; and

   (c) Received in future be paid to the DCLG permanently at the end of each quarter in which they arise (except when required to part-fund (with S106 contributions) the proposed purchase of the affordable rented homes at the Pyrles Lane Nursery development and any other affordable rented homes on other Section 106 development sites);

3) That financial contributions received by the Council from developers through Section 106 Agreements, in lieu of on-site affordable housing provision, be utilised in future to part-fund (with 141 Receipts) the proposed purchase of the affordable rented homes at the Pyrles Lane Nursery development, Loughton and any affordable rented homes from developers on other Section 106 development sites;

4) That the HRA development sites that have received planning permission to date and in the future be sold on the open market, and that a report be considered at a future Cabinet meeting on the proposed marketing strategy for the land sale(s);

5) That the capital receipts from the sale of HRA development sites be utilised for either “affordable housing” or “regeneration” purposes, in order to avoid 50% of the capital receipts having to be paid to the Government, and that the Director of Resources proposes their actual use as part of the periodic Capital Programme Reviews and/or at the time “affordable housing” or “regeneration” projects are considered by the Cabinet;

6) That the Council continues with its adoption of the Modern Homes Standard, with the currently planned levels of stock investment; and

7) That the Director of Resources reports to a future meeting of the Finance and Performance Management Cabinet Committee on the most appropriate way to arrange the required additional HRA borrowing for this option.

Additional Recommendations if Option 4 is selected as the Preferred Option

1) That the Council Housebuilding Programme be ceased and that no further phases be undertaken after Phase 3;

2) That 141 Receipts:

    (a) Paid temporarily to the DCLG to date not be recovered;

    (b) Previously received for allocation to the Council Housebuilding Programme, that will now not be required, be paid to the DCLG permanently, as soon as possible, in order to minimise the amount of interest to be paid to the DCLG; and

    (c) Received in future be paid to the DCLG permanently at the end of each quarter in which they arise (except when required to part-fund (with S106 contributions) the proposed purchase of the affordable rented homes at the Pyrles Lane Nursery development and any other affordable rented homes on other Section 106 development sites);

3) That financial contributions received by the Council from developers through Section 106 Agreements, in lieu of on-site affordable housing provision, be utilised in future to part-fund (with 141 Receipts) the proposed purchase of the affordable rented homes at the Pyrles Lane Nursery development, Loughton and any affordable rented homes from developers on other Section 106 development sites;

4) That the HRA development sites that have received planning permission to date and in the future be sold on the open market, and that a report be considered at a future Cabinet meeting on the proposed marketing strategy for the land sale(s);

5) That the capital receipts from the sale of HRA development sites be utilised for either “affordable housing” or “regeneration” purposes, in order to avoid 50% of the capital receipts having to be paid to the Government, and that the Director of Resources proposes their actual use as part of the periodic Capital Programme Reviews and/or at the time “affordable housing” or “regeneration” projects are considered by the Cabinet; and

6) That the Council reverts to the Government’s Decent Homes Standard as soon as practicably possible, with reduced levels of stock investment, having regard to contractual commitments under Framework Agreements.