CANNOCK CHASE COUNCIL

CABINET

21 JULY 2011

JOINT REPORT OF THE CORPORATE DIRECTOR AND THE HEAD OF FINANCIAL MANAGEMENT

RESPONSIBLE PORTFOLIO LEADER: HOUSING

HOUSING REVENUE ACCOUNT BUSINESS PLAN

KEY DECISION – YES

1. Purpose of Report

1.1 To determine an initial 30 year Housing Revenue Account Business Plan formulated in accordance with the Council's indicative self-financing settlement prior to consultation.

2. Recommendations

2.1 That the implications of the initial Housing Revenue Account Business Plan (attached as Annex 1) in not providing sufficient resources to maintain the Council's housing stock in accordance with the decent homes standard and other statutory obligations are noted.

2.2 That the revised initial Housing Revenue Account Business Plan (attached as Annex 3) is agreed for the purpose of consultation and that the following key assumptions are noted:-

(a) Capital receipts generated from Right to Buy and the sale of certain vacant one bedroom bungalows are utilised as a Housing Revenue Account capital resource.

(b) Repayment of new borrowing to meet the estimated £59 million settlement payment is met through a Minimum Revenue Provision over a 35 year period commencing in 2017-18.

2.3 That Cabinet identify areas of the revised initial business plan where potential changes should be evaluated.

2.4 That the views of the Housing Policy Development Committee are requested on the revised initial business plan.

2.5 That the revised initial Business Plan is subject to a consultation exercise with tenants and other stakeholders.

2.6 That subject to Cabinet reaffirming the current regeneration strategy an application is made to the Department for Communities and Local Government to exclude the 167 Reema flats on the Moss Estate, Chadsmoor from the Council's self-financing settlement as a result of their planned demolition.

2.7 That Cabinet receive further reports on:-

(a) Service standards and specifications for the future delivery of the housing service.

(b) A draft HRA Business Plan (following the Government's announcement of the Council's draft settlement payment) which includes the evaluation of Cabinet identified areas of potential change, the views of the Housing Policy Development Committee and the results of the consultation exercise.

3. Summary (inc. brief overview of relevant background history)

3.1 The Government through the Localism Bill intend to reform Council housing finance. It is proposed to replace the current Housing Revenue Account (HRA) subsidy system with a self-financing alternative which will become operational from 1 April 2012. The proposed legislation will require the Council to implement this change.

3.2 The Department for Communities and Local Government have issued detailed guidance on implementing self-financing, the principles of which are set out below:-

(a) The Council will retain all of its rent income and no longer pay "negative subsidy" to the Government. Negative subsidy payments amounted to £3.83 million in 2010-11.

(b) The Council will also retain 100% of the capital receipts from land and voluntary dwelling rules provided the receipts are spent on affordable housing or regeneration.

(c) However, the existing pooling arrangements whereby 75% of the capital receipts from Right to Buy sales are paid to the Government will continue. The Council will continue to retain the remaining 25%.

(d) "In return" for the above "freedoms" the Council will be required to take on a "share" of the national housing debt by making a settlement payment to the Government. This has been calculated by the Government comparing the amount of debt supported by the current subsidy system with a valuation of the Council's housing stock.

(e) The Government have issued the Council with an indicative stock valuation of £88 million and an indicative settlement payment (to the Government) of £62.2 million.

(f) The indicative valuation and settlement figures will be adjusted to reflect stock changes to 31 March 2011 and, subject to the approval of the Department for Communities and Local Government, any planned demolitions for a five year period.

(g) HRA borrowing by the Council will be subject to a Government limit set at the self-financing stock valuation.

(h) The Council's HRA borrowing limit (currently £88 million) will cover existing HRA borrowing (£23 million) and new borrowing to meet the settlement payment, currently £62.2 million. The difference between the latter two figures and the HRA borrowing limit will be available to the Council for further borrowing to fund stock improvements. This additional borrowing capacity is estimated to be in the region of £3 million.

(i) The self-financing powers within the Localism Bill enable the Government to "re-open" the settlement under certain circumstances. This could result in the Council having to make a further settlement payment to the Government if there has been substantial change to any of the factors taken into account in calculating the initial payment.

3.3 Whilst the principles of self-financing remain unchanged from the proposals announced by the previous Government, the Coalition Government have made two significant changes:-

(a) 75% of the capital receipts received from Right to Buy sales will continue to be paid to the Government in contrast to the previous proposals whereby 100% of RTB receipts would be retained by the Council.

(b) It is now proposed that the Government will be able to "re-open" the Council's settlement agreement under certain circumstances which could result in the Council having to make a further settlement payment.

3.4 The Local Government Association (LGA) is campaigning against these changes and the imposition of a Central Government determined borrowing limit which was included in the previous Government's proposals. The Council has supported the LGA's campaign.

3.5 Both the £88 million stock valuation and the £62.2 million settlement payment are indicative at the present time. The Government propose to issue the Council with a draft determination in November 2011 prior to the initial determination in January 2012.

4. Key Issues and Implications

4.1 Self-financing will necessitate a substantial increase in HRA borrowing to make the required settlement payment to the Government. The cost of this additional (and existing) borrowing together with the cost of managing and maintaining the Council's housing stock will need to be met entirely from HRA resources as no financial assistance will be available from the Government.

4.2 Whilst self-financing will "free" the Council from the current housing subsidy regime, it will increase the amount of risk associated with the financial management of the HRA. In order that these risks can be managed it is necessary for the Council to develop a long-term Business Plan to manage and maintain the Council's housing stock within the context of estimated available resources.

4.3 The Business Plan will not replace the HRA budget process and three year budgets will continue to be formulated each year for both revenue and capital expenditure within a framework provided by the Business Plan. The Business Plan will be determined by the Council and will not require any "sign off" by the Department for Communities and Local Government.

4.4 An initial 30 year HRA Business Plan is attached as Annex 1. Details of the assumptions used in formulating the plan are attached as Annex 2, whilst a summary of the key assumptions are outlined below:-

(a) Settlement Payment. A self-financing settlement payment of £59 million has been assumed at this stage. This is based on the indicative settlement figure of £62.2 million, with adjustments to reflect 2010-11 stock changes and the planned demolition of 167 Reema flats on the Moss Estate, Chadsmoor subject to Cabinet reaffirming the current regeneration strategy.

(b) Right to Buy (RTB) and Other Dwelling Sales. A total of 810 RTB sales are forecast during the business plan period, with the number progressively increasing. In addition, 25 pre-1970 vacant one bedroom bungalows are estimated to be sold subject to a continuation of the present policy.

(c) Rent Income. An annual rent increase of RPI plus 0.5% has been assumed until rent convergence in 2015-16. Thereafter, dwelling rents are assumed to increase by inflation only. A 1% void rate has been assumed for the first five years with a 2% rate thereafter.

(d) Capital Receipts. A continuation of the current policy whereby the 25% of retained receipts from RTB sales together with 100% of receipts generated from the sale of certain vacant one bedroom bungalows will continue to be transferred to the General Fund Capital Programme (to provide private sector disabled facilities grants and affordable housing) has been assumed. As a result these receipts will not be available.

(e) Borrowing. Total borrowing to the Council's estimated limit of £85 million has been assumed. This comprises £23 million of existing debt and £62 million of new borrowing to meet the estimated £59 million settlement payment and provide £3 million for planned maintenance works.

(f) Supported People Funding. The net cost (after the receipt of supporting people funding) of providing sheltered housing and a social alarms service has been included in the Business Plan at this stage. However, Staffordshire County Council are reviewing their supporting people contracts with the Council (and other social landlords) and it is envisaged that this will reduce the level of funding received. This issue will be addressed in the draft plan when the position may be clearer.

(g) Pre-Reinforced Concrete (PRC) Dwellings. Financial provision has been made to undertake structural reinstatement works to 63 Reema houses on the Moss Estate, Chadsmoor and 44 Cornish houses in the Rowley Close area, Pye Green. Provision has also been included for Home Loss and Disturbance payments to facilitate the demolition of 167 Reema flats on the Moss Estate, Chadsmoor, subject to Cabinet reaffirming the current regeneration strategy.

(h) Planned Maintenance. Financial provision has been made for planned maintenance work to ensure the housing stock continues to meet the decent homes standard and other statutory obligations in accordance with updated results from the 2009 stock condition survey. Window replacement has, however, been brought forward to years 2 to 8 of the Business Plan in order that double glazing can be fitted within the majority of existing window frames. The continuation of existing service standards and specifications have also been assumed.

(i) Housing Management and Maintenance. Financial provision has been made to continue current policies and levels of service throughout the business plan period but with cost reductions to reflect the loss of dwellings through sales and demolitions. This includes the continued provision of a Vulnerable Tenants Grass Cutting and Internal Decoration Scheme in accordance with the revised eligibility criteria agreed by Cabinet on 23 June 2011.

(j) Inflation. An inflation rate of 2% has been assumed for both income and expenditure throughout the Business Plan period.

(k) Interest Rates. An interest rate of 6% has been assumed.

(l) Debt Repayment. It has been assumed that:-

* The existing debt of £23 million will continue to be serviced on an interest only basis.

* New borrowing to meet the estimated £59 million settlement payment will be repaid over 40 years through equal principal instalments.

* The additional estimated capacity for new borrowing of £3 million will be undertaken on a maturity basis over 20 years.

4.5 The initial Business Plan (attached as Annex 1) shows a cumulative surplus of £54.69 million at the end of the plan period (Year 30). However, there is a cumulative deficit of £1.18 million at Year 10, with cumulative deficits occurring each year, within Years 2 to 10 and a peak cumulative deficit of £3.02 million in Year 8. The initial plan is not therefore viable.

4.6 Expenditure requirements are in accordance with a continuation of existing policies and service standards including maintaining the Council's housing stock to the decent homes standard and other statutory requirements. In particular the provision for planned maintenance represents the minimum standard for the future maintenance of the housing stock with works being deferred wherever possible, with no provision for improvements other than those required to meet the decent homes standard. It is not therefore considered that expenditure requirements can be reduced if the Council is to continue to meet its statutory obligations.

4.7 Consideration has therefore been given to actions which increase the availability of resources during years 1 to 10 of the plan. A revised initial business plan has been formulated in accordance with this approach and is attached as Annex 3. Whilst the majority of the assumptions remain unchanged, the revised initial plan assumes that:-

(a) The capital receipts generated from RTB sales and the sale of certain vacant one bedroom bungalows are utilised as an HRA capital resource rather than being transferred to the General Fund Capital Programme for the provision of private sector disabled facilities grants and affordable housing.

(b) The repayment of new borrowing to meet the estimated £59 million settlement payment will be made through a Minimum Revenue Provision over a 35 year period with effect from Year 6. The Minimum Revenue Provision will be set aside from revenue and put in a debt repayment reserve in order to repay the debt in Year 40.

4.8 As a result of these changes, the revised initial plan (Annex 3) provides a reduced cumulative surplus of £30.33 million at the end of the plan period (Year 30). However, a cumulative surplus is generated each year with a cumulative surplus of £5.10 million in Year 10.

4.9 The revised initial plan provides for a continuation of existing policies and service standards and in particular would ensure that the Council's housing stock continues to be maintained in accordance with the decent homes standard and other statutory obligations. In addition, the revised plan provides some capacity to "bring forward" planned maintenance expenditure (in order to deliver dwelling improvements at an earlier date) and a limited amount of resources to enhance current specifications or introduce further planned maintenance work programmes.

4.10 Details of the proposed planned maintenance programmes included in the revised initial plan are set out in Annex 4 and would deliver:-

(a) The structural reinstatement of the Council's:-

* 63 Reema houses at the Moss Estate, Chadsmoor during Years 1 to 3.
* 44 Cornish houses in the Rowley Close area, Pye Green during Years 3 to 5.

(b) The continuation of kitchen and central heating/boiler and heating appliance replacement to dwellings which fail to meet the decent homes standard.

(c) The continuation of electrical upgrading and eternal envelope works programme (comprising works to the external fabric of Council dwellings including the roof, chimney, render and/or brick, guttering, fascia and soffit boards) on seven year cycles.

(d) The reintroduction of a bathroom replacement programme in Year 3.

(e) The introduction of an external curtilage works programme (works to paths, boundary walls, fencing – where it adjoins a highway or public footpath only and gates) in Year 3.

(f) The provision of double glazing (fitted where possible in the existing window frames) to all Council dwellings without this facility during Years 2 to 8, as part of the external envelope works programme.

4.11 The revised initial Business Plan would need to be refined and developed as details of the Council's settlement payment and borrowing limit become more certain and to take account of the additional (but limited) capacity to "bring forward" expenditure or enhance the housing service. It is therefore proposed the revised initial plan is approved for consultation and:-

(a) Cabinet identify areas of the plan where potential changes should be evaluated;

(b) the views of the Housing Policy Development Committee are requested;

(c) tenants and other stakeholders are consulted.

4.12 As part of the further plan development it is proposed to review current service standards and specifications for the future delivery of the housing service. The results of this exercise will be the subject of a separate Cabinet report.

4.13 It is further proposed that Cabinet consider a draft Business Plan following the Government's announcement of the Council's draft settlement payment which is expected to be made in November 2011. The draft plan will also address Cabinet identified areas of potential change, the views of the Housing Policy Development Committee, the outcomes of consultation with tenants and other stakeholders and decisions arising from the review of service standards and specifications.

5. Conclusion(s) and Reason(s) for the Recommendation(s)

5.1 Subject to Parliamentary approval of the Localism Bill self-financing will replace the current HRA subsidy system from 1 April 2012. Whilst the Council will retain all of its future rent income, it will be required "in return" to make a settlement payment to the Government.

5.2 The cost of making the settlement payment (assumed to be in the region of £59 million at this stage) will need to be met by additional borrowing and the cost of this, together with the cost of managing and maintaining the Council's housing stock and existing borrowing will need to be met entirely from HRA resources.

5.3 In order that the risks associated with this change can be managed it is necessary for the Council to develop a long-term (30 year) business plan to manage and maintain the Council's housing stock within the context of estimated available resources.

5.4 This report considers the formulation of a viable initial Business Plan in accordance with the Council's indicative settlement payment. An initial Business Plan (attached as Annex 1) based on the repayment of the principal in respect of the settlement payment loan over a 40 year period does not provide sufficient resources to maintain the Council's housing stock in accordance with the decent homes standard and other statutory obligations and is not therefore considered viable.

5.5 A revised initial Business Plan (attached as Annex 3) has therefore been formulated on the basis that RTB and vacant bungalow receipts are retained as an HRA Capital resource and the settlement payment loan is met through a Minimum Revenue Provision over a 35 year period commencing in 2017-18. This plan will enable the Council to maintain its stock in accordance with the decent homes standard and other statutory obligations and provide some capacity to "bring forward" planned maintenance expenditure and enhance the current housing service.

5.6 It is therefore suggested that the revised initial plan is agreed for consultation and further development. Following consultation on the revised initial plan and consideration of a further report on future housing service standards and specifications, a draft HRA Business Plan will be presented to Cabinet following the Government's announcement of the Council's draft settlement payment.

6. Other Options Considered

6.1 Stock transfer remains as an alternative option but has to be financially compatible to self-financing, with no additional Government support.

6.2 Arms Length Management is a further option but again would not attract any additional Government resources.

7. Report Author Details

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SCHEDULE OF ADDITIONAL INFORMATION

INDEX

Section 1

Contribution to Council Priorities (i.e. CHASE, Corporate Priorities)

The formulation of an HRA Business Plan has been identified as a key action to support the service aim of “maintaining to the Council’s housing stock to the Decent Homes Standard, as set out in the agreed 2011-12 “Place” Priority Delivery Plan”.

Section 2

Contribution to Promoting Community Engagement

The “initial” HRA Business Plan would be subject to a consultation exercise with tenants and other stakeholders with the results being considered as part of the subsequent “draft” Plan.

Section 3

Financial Implications (Draft)

The financial implications have been referred to throughout the report.

Section 4

Legal Implications

There are no identified legal implications arising from this report.

Section 5

Human Resource Implications

A number of assumptions are made in the report and associated action plan. At the present time there is no anticipated impact on staffing requirements but this will be monitored and assessed through the life of the business plan.

Section 6

Section 17 (Crime Prevention)

A number of housing services which are to be funded through the HRA have crime prevention implications. These will be further considered as part of the proposed review of service standards and specifications.

Section 7

Human Rights Act Implications

There are no identified implications in respect of the Human Rights Act 1998 arising from this report.

Section 8

Data Protection Act Implications

There are no identified implications in respect of the Data Protection Act arising from this report.

Section 9

Risk Management Implications

The failure to formulate a sustainable 30 year HRA Business Plan in accordance with the Government's HRA debt settlement proposals has been identified as a medium risk within the Council's Strategic Risk Register.

Subject to a sustainable Plan being formulated the target of low risk will be achieved.

A schedule of the risks associated with the "initial" Business Plan is also attached as Annex 5.

Section 10

Equality and Diversity Implications

The "draft" HRA Business Plan will be subject to an Equality Impact Assessment.

Section 11

List of Background Papers

(a) Department for Communities and Local Government "Implementing Self-Financing for Council Housing"

(b) Department for Communities and Local Government "Guidance on Reflecting Demolitions in the Valuation"

Section 12

Report History

Reform of Council Housing Finance	Cabinet	17 September 2009

Annexes

Annex 1: Initial HRA Business Plan

Annex 2: Initial HRA Business Plan Assumptions

Annex 3: Revised Initial HRA Business Plan

Annex 4: Revised Initial HRA Business Plan – Proposed Capital Programmes

Annex 5: Revised Initial HRA Business Plan – Risk Analysis

<u>ENCLOSURE 7.12</u>

<u>ANNEX 1</u>

	1 2012.13	2 2013.14	3 2014.15	4 2015.16	5 2016.17	6-10 2017.22	11-15 2022.27	16-20 2027.32	21-25 2032.37	26-30 2037.42
<u>Income</u>										
Dwelling Rent	18,606,460	18,628,220	18,786,730	19,088,450	19,385,290	100,275,640	107,448,690	115,005,340	122,971,010	131,349,070
Shop Rent	128,000	129,280	130,570	131,880	133,200	686,260	721,270	758,080	796,770	837,420
Garage Rent	284,400	282,430	280,300	277,930	275,370	1,330,790	1,233,090	1,098,900	1,099,520	1,214,060
Total Income	**19,018,860**	**19,039,930**	**19,197,600**	**19,498,260**	**19,793,860**	**102,292,690**	**109,403,050**	**116,862,320**	**124,867,300**	**133,400,550**
<u>Expenditure</u>										
Repairs	4,201,510	4,231,230	4,282,674	4,356,852	4,430,824	23,214,316	24,877,774	26,781,524	28,446,889	30,715,248
Management	3,867,360	3,944,700	4,023,580	4,104,060	4,186,140	22,145,390	24,134,380	26,492,390	28,602,710	31,579,890
Interest - Current Debt	1,281,530	1,281,530	1,281,530	1,281,530	1,281,530	6,407,650	6,407,650	6,407,650	6,407,650	6,407,650
Interest - New Debt	3,720,000	3,631,500	3,543,000	3,454,500	3,366,000	15,502,500	13,290,000	11,077,500	7,965,000	5,752,500
Principal - New Debt	1,475,000	1,475,000	1,475,000	1,475,000	1,475,000	7,375,000	7,375,000	10,375,000	7,375,000	7,375,000
Depreciation	3,238,570	3,242,620	3,270,370	3,322,950	3,374,690	17,636,690	18,900,920	20,233,180	21,638,030	23,116,120
Total Expenditure	**17,783,970**	**17,806,580**	**17,876,154**	**17,994,892**	**18,114,184**	**92,281,546**	**94,985,724**	**101,367,244**	**100,435,279**	**104,946,408**
Surplus / (Deficit)	**1,234,890**	**1,233,350**	**1,321,446**	**1,503,368**	**1,679,676**	**10,011,144**	**14,417,326**	**15,495,076**	**24,432,021**	**28,454,142**
<u>Capital Resources</u>										
RCCO	456,490	1,231,090	1,314,486	1,491,498	1,667,746	9,962,664	14,349,776	15,145,416	24,666,021	28,359,662
Borrowing	3,000,000									
Major Repairs Allowance	3,238,570	3,242,620	3,270,370	3,322,950	3,374,690	17,636,690	18,900,920	20,233,180	21,638,030	23,116,120
Capital Receipts RTB	-	-	-	-	-	-	-	-	-	-
Capital Receipts Bungalows	-	-	-	-	-	-	-	-	-	-
Land Sales	50,000	50,000	2,050,000	50,000	50,000	250,000	125,000	125,000	-	-
Total Capital Resources	**6,745,060**	**4,523,710**	**6,634,856**	**4,864,448**	**5,092,436**	**27,849,354**	**33,375,696**	**35,503,596**	**46,304,051**	**51,475,782**
Capital Expenditure	5,666,360	6,989,760	5,963,120	5,921,390	5,554,340	26,799,770	27,560,440	27,983,950	27,069,320	28,162,780
Surplus / (Deficit)	**1,078,700**	**(2,466,050)**	**671,736**	**(1,056,942)**	**(461,904)**	**1,049,584**	**5,815,256**	**7,519,646**	**19,234,731**	**23,313,002**
Cumulative Surplus	**1,078,700**	**(1,387,350)**	**(715,614)**	**(1,772,556)**	**(2,234,460)**	**(1,184,876)**	**4,630,380**	**12,150,026**	**31,384,757**	**54,697,759**

Base Model Assumptions   Decent Homes including Double glazing (repayment of principal) & no Capital Receipts

Borrowing £59,000,000 over 40 years on Equal Instalment of Principal
Additional £3,000,000 borrowing over 20 years on Maturity Basis
Repairs based on minimum standard
Moss Estate 167 flats demolished
Void rents 1 % years 1 - 5 then 2%
Minimum level of reserves 10% of expenditure

ANNEX 2

INITIAL HRA BUSINESS PLAN ASSUMPTIONS

1. CHANGES IN HRA ASSETS

(a) Dwelling changes The housing stock is expected to decrease by 1,002 dwellings over the Business Plan period as a result of:-

- 810 Right to Buy sales (10 per annum during years 1 and 2; 15 per annum during years 3 and 4; 20 per annum during years 5 and 6 and 30 per annum for each year thereafter).
- The sale of 25 Pre-1970 vacant one bedroom bungalows (5 per annum during years 1 to 5).
- The demolition of 167 Reema flats on the Moss Estate, Chadsmoor during years 1 and 2.

(b) Garage changes The number of garages are expected to decrease by 360 units by year 20 as a result of demolitions to reflect the expected continued decline in demand.

2. RENT INCOME

(a) Dwelling Income Rent income is assumed to increase by RPI plus 0.5% until rent convergence by year 4. Thereafter, rents are assumed to increase annually by inflation only.

(b) Income from Other Assets Garage rents and income from shop leases are assumed to increase annually by inflation.

(c) Void Rate Annual rent income from dwellings has been reduced by a 1% void rate during years 1 to 5 of the plan and by 2% thereafter. A void rate of 25% has been assumed for garages throughout the plan period.

(d) Provision for Bad Debts The current provision for bad debts has been increased to £200,000 per annum in year 1 (and then inflated) to reflect the implications of the Welfare Reform Bill.

3. CAPITAL RECEIPTS

(a) Right to Buy and Vacant One Bedroom Bungalow Receipts It is assumed that the receipts generated from RTB sales and the sale of certain vacant one bedroom bungalows will continue to be transferred to the General Fund Capital Programme for the purposes of providing private sector disabled facilities grants and affordable housing and will not therefore be available as a housing capital resource.

(b) Land Sales It has been assumed that 100% of the receipts generated from HRA land sales will continue to be available as HRA capital resources. The receipt from the sale of the Mill Green Employment site has been programmed for year 3, whilst receipts from the sale of surplus garage sites are assumed to be £50,000 per annum during years 1 to 10 and £25,000 during years 11-20. No receipts are assumed thereafter.

(c) Other Capital Resources No resources from the Energy Efficiency Commitment Programme or other sources have been assumed.

4. SUPPORTING PEOPLE FUNDING

It is assumed that the current net cost of providing sheltered housing and a social alarms service, after the provision of supporting people funding will continue to be met through the HRA.

Note: Staffordshire County Council are reviewing their supporting people contracts with the Council and it is envisaged that the level of funding will be reduced. This is addressed further in the Risk Analysis (attached as Annex 4).

5. SELF-FINANCING SETTLEMENT PAYMENT

A self-financing settlement payment of £59 million has been assumed. This is based on the indicative settlement figure of £62.2 million, with adjustments to reflect 2010-11 stock changes and the planned demolition of 167 Reema flats on the Moss Estate, Chadsmoor.

6. INFLATION

Inflation of 2% per annum has been assumed for both income and expenditure throughout the Business Plan period.

7. DEPRECIATION

Depreciation of the Council's HRA assets has been assessed over a 75 year lifespan in accordance with CIPFA guidelines.

Annual depreciation is available as a HRA Capital resource.

8. WORKING BALANCE

A minimum working balance comprising 10% of annual expenditure has been assumed throughout the Business Plan period.

It is further assumed that £1 million of working balances will be carried forward from 2011-12.

9. REVENUE CONTRIBUTION TO CAPITAL OUTLAY

It has been assumed that any surplus above the minimum amount required in working balances will be utilised as a Revenue contribution to Capital outlay.

10. BORROWING

Total borrowing to the Council's estimated limit of £85 million has been assumed. This comprises:-

(a) £23 million of existing debt.

(b) £62 million of new borrowing to:-

(i) meet the estimated £59 million settlement payment;

(ii) provide £3 million for planned maintenance works.

11. INTEREST RATES

An interest rate of 6% has been assumed.

12. WORKS TO PRE-REINFORCED CONTRETE DWELLINGS

It has been assumed that structural reinstatement works will be undertaken to:-

(a) The 63 Reema houses on the Moss Estate, Chadsmoor during years 1 to 3.

(b) The 44 Cornish Houses in the Rowley Close area, Pye Green during years 3 to 5.

It is further assumed that the 167 Reema flats on the Moss Estate, Chadsmoor will be demolished and financial provision to facilitate the re-housing of existing residents through the provision of Home Loss and Disturbance payments is included for years 1 and 2. No provision has been made for demolition costs as it is assumed that this will be met as part of the redevelopment.

13. PLANNED MAINTENANCE

It is assumed that planned maintenance works will be undertaken with Decent Homes/Statutory Repair obligations requirements evidenced by the 2009 stock condition survey.

This represents the minimum standard for the future maintenance of the housing stock and results in works being deferred wherever possible, with no provision for improvements other than those required to meet the decent homes standard.

In particular, no provision is made for:-

(a) Fencing replacement unless it adjoins a highway or public footpath;

(b) Works to garages;

(c) Environmental improvements.

Window replacement has however been brought forward to years 2 to 8 of the Business Plan to enable double glazing to be fitted to the majority of existing window frames.

It is further assumed that works will be undertaken in accordance with existing service standards and specifications.

14. RESPONSIVE AND CYCICAL MAINTENANCE

Costs have been reduced annually to reflect the reduction in the housing stock throughout the Business Plan period. Establishment costs have also been reduced by 4% in year 11 and a further 7% in year 21.

A continuation of current policies and existing levels of service are assumed throughout the Business Plan period and include:-

(a) The servicing of all gas and solid fuel heating appliances and the continuation of a “three star” maintenance service.

(b) A responsive repairs service delivered in accordance with current timescales.

(c) Works to void dwellings in accordance with the Council’s lettable standard including the provision of a second door to any bungalows which remain without this facility.

(d) Annual contributions to reserve accounts to provide for:-

- The replacement of door entry systems and sheltered housing scheme lifts when required.
- The decoration of the internal communal areas of flat blocks on a 7 year cycle.
- A stock condition survey every five years.

15. DISABLED FACILITIES WORKS

Provision has been made throughout the Business Plan period to provide for the projected need to undertake disabled facilities works for disabled households living in Council accommodation. The provision includes resources to remove the current waiting list during Years 1 to 3.

16. HOUSING MANAGEMENT

Provision has been made throughout the Business Plan period to continue current policies and existing levels of service in respect of rent collection and arrears recovery, the allocation and letting of vacant dwellings, tenant participation and estate management including “estate walks” and action regarding anti-social behaviour and neighbour complaints. Establishment costs have however, been reduced by 4% in year 11 and a further 7% in year 21 to reflect changes in the housing stock.

The assumed level of service includes:-

(a) The provision of the current Vulnerable Tenants Grass Cutting and Internal Decoration service to households who are aged over 70 or who are in receipt of a defined benefit.

(b) Continued support to the Chase Tenants and Residents Federation and individual tenants and residents associations including annual grants, the provision of office accommodation and the secondment of a part-time support worker.

(c) The continuation of the Benion Road area CCTV system.

(d) The production and distribution of the quarterly “Hometalk” Magazine.

(e) Insurance of HRA property assets.

(f) The provision of an annual minor works budget of £75,110 (inflated).

(g) The net cost of providing sheltered housing and communal alarm monitoring service following the receipt of supporting people funding from Staffordshire County Council.

17. DEBT REPAYMENT

It is assumed that:-

(a) Existing debt of £23 million will continue to be serviced on an interest only basis.

(b) New borrowing to meet the estimated £59 million settlement payment will be repaid over 40 years through equal principal instalments.

(c) The additional estimated capacity for new borrowing of £3 million will be undertaken on a maturity basis over 20 years.

ANNEX 3

	1 2012.13	2 2013.14	3 2014.15	4 2015.16	5 2016.17	6-10 2017.22	11-15 2022.27	16-20 2027.32	21-25 2032.37	25-30 2037.42
Income										
Dwelling Rent	18,606,460	18,628,220	18,786,730	19,088,450	19,385,290	100,275,640	107,448,690	115,005,340	122,971,010	131,349,070
Shop Rent	128,000	129,280	130,570	131,880	133,200	686,260	721,270	758,080	796,770	837,420
Garage Rent	284,400	282,430	280,300	277,930	275,370	1,330,790	1,233,090	1,098,900	1,099,520	1,214,060
						-	-	-	-	-
Total Income	**19,018,860**	**19,039,930**	**19,197,600**	**19,498,260**	**19,793,860**	**102,292,690**	**109,403,050**	**116,862,320**	**124,867,300**	**133,400,550**
						-	-	-	-	-
Expenditure						-	-	-	-	-
						-	-	-	-	-
Repairs	4,201,510	4,231,230	4,282,674	4,356,852	4,430,824	23,214,316	24,877,774	26,781,524	28,446,889	30,715,248
Management	3,867,360	3,944,700	4,023,580	4,104,060	4,186,140	22,145,390	24,134,380	26,492,390	28,602,710	31,579,890
Interest - Current Debt	1,281,530	1,281,530	1,281,530	1,281,530	1,281,530	6,407,650	6,407,650	6,407,650	6,407,650	6,407,650
Interest - New Debt	3,720,000	3,720,000	3,720,000	3,720,000	3,720,000	18,600,000	18,600,000	18,600,000	17,700,000	17,700,000
Principal & MRP New Debt	-	-	-	-	-	8,428,571	8,428,571	11,428,571	8,428,571	8,428,571
Depreciation	3,238,570	3,242,620	3,270,370	3,322,950	3,374,690	17,636,690	18,900,920	20,233,180	21,638,030	23,116,120
						-	-	-	-	-
Total Expenditure	**16,308,970**	**16,420,080**	**16,578,154**	**16,785,392**	**16,993,184**	**96,432,617**	**101,349,295**	**109,943,315**	**111,223,851**	**117,947,479**
						-	-	-	-	-
Surplus / (Deficit)	**2,709,890**	**2,619,850**	**2,619,446**	**2,712,868**	**2,800,676**	**5,860,073**	**8,053,755**	**6,919,005**	**13,643,449**	**15,453,071**
						-	-	-	-	-
						-	-	-	-	-
						-	-	-	-	-
						-	-	-	-	-
Capital Resources						-	-	-	-	-
						-	-	-	-	-
RCCO	2,078,990	2,608,740	2,603,636	2,692,148	2,779,896	4,986,773	7,341,955	6,057,085	13,833,209	15,314,341
Borrowing	3,000,000					-	-	-	-	-
Major Repairs Allowance	3,238,570	3,242,620	3,270,370	3,322,950	3,374,690	17,636,690	18,900,920	20,233,180	21,638,030	23,116,120
Capital Receipts RTB	125,000	125,000	195,000	195,000	265,000	1,650,000	2,062,500	2,062,500	2,062,500	2,062,500
Capital Receipts Bungalows	300,000	300,000	300,000	300,000	300,000	-	-	-	-	-
Land Sales	50,000	50,000	2,050,000	50,000	50,000	250,000	125,000	125,000	-	-
						-	-	-	-	-
Total Capital Resources	**8,792,560**	**6,326,360**	**8,419,006**	**6,560,098**	**6,769,586**	**25,135,463**	**29,030,375**	**28,945,765**	**37,533,739**	**40,492,961**
						-	-	-	-	-
Capital Expenditure	5,666,360	6,989,760	5,963,120	5,921,390	5,554,340	26,799,770	27,560,440	27,983,950	27,069,320	28,162,780
						-	-	-	-	-
Surplus / (Deficit)	**3,126,200**	**(663,400)**	**2,455,886**	**638,708**	**1,215,246**	**(1,664,307)**	**1,469,935**	**961,815**	**10,464,419**	**12,330,181**
Cumulative Surplus	**3,126,200**	**2,462,800**	**4,918,686**	**5,557,394**	**6,772,640**	**5,108,333**	**6,578,267**	**7,540,082**	**18,004,501**	**30,334,682**

Base Model Assumptions **Decent Homes including Double glazing (Minimum Revenue Provision)**

Borrowing £59,000,000 over 40 years on Equal Instalment of Principal
Additional £3,000,000 borrowing over 20 years on Maturity Basis
Includes RTB & Bungalow Receipts
Repairs based on minimum standard
Moss Estate 167 flats demolished
Minimum level of reserves 10% of expenditure

ANNEX 4

Revised Initial HRA Business Plan – Proposed Capital Programmes

	1 2012.13	2 2013.14	3 2014.15	4 2015.16	5 2016.17	6-10 2017.22	11-15 2022.27	16-20 2027.32	21-25 2032.37	25-30 2037.42
DFG's	562,000	573,240	584,700	366,120	373,440	1,982,230	2,188,560	2,416,340	2,667,800	2,945,500
PRC - Demolish flats	750,000	750,000				-	-	-	-	-
PRC - Reema Houses	350,000	700,000	350,000			-	-	-	-	-
PRC - Cornish Houses			250,000	700,000	250,000	-	-	-	-	-
Double Glazing		957,070	965,260	980,780	996,050	3,085,540	-	-	-	-
Capital Adjusted for Property Numbers										
Tenant Improvements	5,000	5,100	5,200	5,300	5,410	28,710	31,680	34,960	38,610	42,610
Kitchens	1,077,490	1,078,840	720,390	731,970	743,370	3,307,170	7,292,020	8,056,130	5,570,430	5,092,010
Bathrooms	-	-	940,990	956,120	971,010	2,919,840	1,556,700	3,194,880	2,689,350	1,618,160
Central Heating	1,093,490	1,094,860	778,170	790,680	802,990	5,777,670	6,980,620	6,454,720	6,987,400	7,907,460
Electrics	388,140	388,620	363,830	369,690	375,440	1,962,100	2,102,730	2,250,950	2,407,230	2,571,670
External Site Works	-	-	407,630	414,190	420,640	3,101,620	3,134,110	1,936,920	1,304,400	1,272,350
External Fabric Work	1,440,240	1,442,030	596,950	606,540	615,990	4,634,890	4,274,020	3,639,050	5,404,100	6,713,020
						-	-	-	-	-
	4,004,360	4,009,450	3,813,160	3,874,490	3,934,850	21,732,000	25,371,880	25,567,610	24,401,520	25,217,280
Capital Budget	**5,666,360**	**6,989,760**	**5,963,120**	**5,921,390**	**5,554,340**	**26,799,770**	**27,560,440**	**27,983,950**	**27,069,320**	**28,162,780**

ANNEX 5

REVISED INITIAL HOUSING REVENUE ACCOUNT BUSINESS PLAN – RISK ANALYSIS

	ASSUMPTION	RISK	COMMENTS
1.			
	Demand for the Council's Housing Stock	Low	Evidence from the "C3 Sub-Regional Housing Market Assessment" and the housing register shows a substantial demand for the Council's housing stock. No dwellings are considered to be "difficult to let", although some properties are "less popular" and difficulties can be experienced in letting:- - sheltered accommodation generally and in particular bedsits with shared bathroom facilities - Certain older one bedroom bungalows - The Reema two bedroom flats at the Moss Estate, Chadsmoor The effects of the recession on the private housing market is likely to increase the overall demand for the Council's housing stock. However, even when the market was buoyant there was no decrease in the number of applicants on the housing register. Improvement works are unlikely to improve the let ability of the properties which have been identified as "less popular" and this will be monitored to ascertain whether applicant property eligibility criteria should be extended.
2.	Dwelling Sales	Medium	A total of 780 Right to buy dwelling sales have been forecast through the Business Plan period, with a projected increase from 10 per annum in year 1 to 30 per annum for year 7 and subsequent years. This relatively low rate of sales contrasts with RTB sales of 222 in 2002-03 and 239 in 2003-04. The voluntary sale of 25 vacant one bedroom bungalows is also forecast during years 1-5 but can be varied by Council

			policy. Where possible Business Plan expenditure has been reduced to reflect the reduction in the housing stock including reviews of the Housing Divisions Establishment in years 10 and 20. Loan charges cannot however, be reduced to reflect stock changes. The Government have assumed a continued low rate of RTB sales in calculating the Council's settlement payment which is to be funded by additional borrowing. Any increase in RTB sales will reduce the amount of rent income and consequently the Council's capacity to service the increase debt. Furthermore, the Council will only retain 25% of RTB receipts with the remaining 75% being paid to the Government under the pooling arrangements. Whilst the housing market is predicted to recover, analysists do not forecast a return to the RTB sale rates which occurred in 2002-03 and 2003-04. Any increase in RTB sales will however, reduce income and it would be necessary to reduce Business Plan expenditure to reflect the decreased stock.
3.	Rent Income	Medium	Rent income has been assumed to increase by 0.5% plus inflation until year 4 of the Business Plan and by inflation only thereafter. Changes to the Governments rent policy could however, alter this assumption. Annual rent income has been reduced by 1% per annum for the first five years and 2% thereafter to reflect the loss of rent income through voids. An annual void rate of 1% has been maintained for many years but cannot be forecast throughout the Business Plan period. A 2% rate is therefore considered prudent for Year 6 and beyond. Changes to the benefits system through the

			Welfare Reform Bill will be implications on the collection of rent income. The amount of "housing benefit" received by people of working age will be capped and wherever possible payments will be made directly to households rather than to landlords. These changes will impact on tenants ability to pay their rent and as a consequence the provision for bad debts has been increased throughout the Business Plan period.
4.	Generation of Capital Receipts	Medium	All capital receipts generated from RTB sales, the voluntary sale of certain vacant one bedroom bungalows and surplus land held in the HRA, have been included in the Business Plan to support the Capital Programme. As a result of the current recession a relatively low rate of RTB sales has been forecast throughout the plan period, particularly during the early years. Under the Governments pooling arrangements the Council can only utilise 25% of RTB receipts and the implications of a reduced level of sale would therefore be limited. 100% of the receipts from the voluntary sale of certain vacant one bedroom bungalows are however, retained by the Council. Whilst a low level of sales has again been forecast (15 per annum during the initial five years of the plan), the loss of capital resources from a reduced level of sales or a change in policy would be more significant. With the exception of the Mill Green Employment site land sales have been limited to the sale of surplus garage sites and other small areas of land. The capital receipts generated from this source have been limited to £50,000 per annum during years 1-10 of the plan and £25,000 per annum during years 11-20. No resources are assumed thereafter. A capital receipt of £2 million is however forecast to be generated from the sale of the Mill Green Employment site during year 3 of the plan (2014 – 15). Whilst the current

			economic situation has constrained the disposal of this site, analysists predict a recovery in the market by 2013-14. Any reduction in the level of capital receipts would necessitate planned maintenance programmes to be re-phased to later years within the Business Plan. This would have implications for the condition of the housing stock and potentially increase the need for responsive maintenance.
5.	Stock Condition Requirements	Low	The Business Plan has been reformed by the results of the 2009 stock condition survey (undertaken by Savills Commercial Ltd) which have been updated to reflect completed works and estimated cost of the structural condition of Pre-Reinforced Concrete dwellings is provided by the 2007 Structural Assessment Report undertaken by Michael Dyson Associates. Provision has been made in the Plan for the planned maintenance investment requirements to meet the decent homes standard and other statutory obligations. This represents the minimum standard for future maintenance with works being deferred wherever possible. The costs of the structural reinstatement of the Reema houses on the Moss Estate and the Cornish houses in the Rowley Close area are also included in the plan, together with the costs associated with the demolition of the Reema flats on the Moss Estate. In addition, provision has been made for an updated stock condition survey every five years. As the Business Plan provides the minimum standard for future maintenance, additional planned maintenance works could be indentified by future surveys. In addition, there may be a need to “bring forward” works which were deferred in the 2009 survey. Regular surveys will however, ensure that any stock condition changes are identified at an early stage and that planned maintenance programmes can be

			adjusted accordingly.
6.	Inflation	Medium	Annual inflation for both income and expenditure has been forecast at 2% per annum throughout the Business Plan. Provided that these rates are consistent there would be no significant implications on the plan. However, maintenance costs form a major component of the plan and these could increase above the general rate of inflation, particularly as a result of increases in the price of building materials and waste disposal. The proposed maintenance programmes will be delivered through contracts based on "partnering arrangements", which would seek to mitigate abnormal building cost increases through efficiency savings and the alternative procurement of materials. However, significant increases would necessitate planned maintenance programmes to be rephrased.
7.	Changes to the Council's Settlement Payment	Low	The Localism Bill allows for further settlement payments between the Council and the Government where there has been a change in one of the factors used to calculate the initial payment. The Government state that:- "This provision is necessary to protect both the Government and Local Authorities from being locked into a deal that because of changes to policy affecting either a landlords income or costs, no longer reflects a fair valuation and could have a material impact on viability. This could be a major change in national rental policy or a significant increase in the environmental standards expected of Council housing". It is unlikely that any change would result in the Council receiving a settlement payment from the Government and that if this provision is used, it would result in the Council making a further settlement

			payment to the Government. Any potential changes would however, be subject to consultation before implementation.
8.	Supporting People	High	The current net cost (latter the receipt of Supporting People Funding) of providing sheltered housing and social alarm services has been included in the Business Plan, together with an annual contribution to a “Social Alarms Replacement” reserve. Staffordshire County Council are however, reviewing their supporting people contracts with the Council and it is envisaged that the level of funding will be reduced. It is understood that minor changes are being considered for sheltered housing but that social alarms funding may be subject to significant change. It is possible that future funding may be allocated in accordance with a households need for a social alarm service rather than being based on the number of properties which are provided with a social alarm facility as at present. A reduction in social alarm supporting people funding would require additional HRA expenditure, a reduction in the number of households who received the service, or the introduction of a separate charge. If additional HRA expenditure is to be provided through the Business Plan, this may necessitate a reduction in other housing services during years 1-7.
9.	Debt Payment	Medium	An interest rate of 6% has been assumed for new and existing borrowing in accordance with the Council’s Treasury Management Strategy. New borrowing will need to be secured in January 2012 and any further projected increase in interest rates before this date will have a detrimental impact on the Business Plan and necessitate savings in other areas.