

A large, faint version of the Cascade Consulting logo is centered in the background of the page, behind a white rectangular box. The graphic consists of several concentric, overlapping rings in shades of green, creating a spiral effect.

**Uttlesford District Council**  
**Report for HRA Business Plan**  
**August 2009**

## 1. Introduction

Cascade Consulting Ltd were appointed in Spring 2009 to update the Council's current HRA Business Plan Model (the Plan) in terms of inputs and assumptions used.

During our work, the 2009/10 revised HRA Subsidy determinations have been incorporated with our reworking of the Council's model.

We have also been able to incorporate the brand new stock condition survey by Michael Dyson Associates (MDA) into the overall projections.

This Report details the key inputs and assumptions used within the updated model and presents our view as to the outcome projections and further considerations including a plan of action.

The Council takes the view that its stock presently meets Decent Homes Standard and its concerns are related to financial capacity to maintain the Standard into the future.

This report does not take into account the consultation document on the review of HRA finance, and commentary on the potential implications of this are required then further work will be necessary.

## 2. Executive Summary

The revised Plan indicates that the Housing Revenue Account will have an overall deficit by year 4. This is due to the provision for capital expenditure being increased in line with the results of the stock condition survey. By law a HRA cannot be allowed to fall into deficit and in order to maintain the current decent homes standard new methods of funding would be required.

In terms of the Council's ability to meet its Housing investment requirement, based on stock data provided and resources available, we project that a balanced position can be achieved until 2012/13.

These forecasts are based on assumptions detailed below and we suggest that the Council considers these and seeks constructs an action plan to tackle the required savings or to identify other alternatives means of financing the identified capital shortfalls.

The key areas of concern in respect of the projections are:

- Volatility surrounding the HRA Subsidy system, specifically the consultation document issues
- The expected levels of Capital works far exceed the level of HRA funding at present.

- Management and Maintenance costs are both forecast to increase by RPI only and may not reflect future trends

### 3. Assumptions and Key Inputs to the Model

CLG HRA Business Plan Model v2004.9 30-year projections, based on financial year 2009.10 and onwards. Filename: 2009.10HRABP.

The inputs within the model have been based on the updated budgets for the HRA for financial year 2009/10. Where appropriate updated financial data has been used to ensure that the model is as accurate as possible.

#### Types of Stock

The Various stock types can be entered into the model as categories, for example, estates, bed sizes, or needs basis. The model has been structured around Bed Sizes ranging from Bedsits to 5 Bed properties.

#### Inflation and Interest Rates

The recommended rate for RPI of 2.5% has been used throughout the plan, with the exception of Year 2 where 0% has been used.

The Consolidated Interest rate is estimated at 7% and is predicted to be constant throughout the plan to form a basis of consistency.

Interest on HRA balances is estimated at 1.5% in year 1 then 2% thereafter, again constant throughout the plan.

#### Average Rents & Increases

The average rent of £76.36 is net of current service charges as at 1<sup>st</sup> April 2009, based on 52 weeks.

It has been assumed, in line with current guidance, that actual rents will converge with target rents in financial year 2023/24, that is year 15 within the plan. This is under the revisions made within the HRA subsidy determination for 2009/10.

From the latest subsidy determination, the average target rent for 2009/10 is £84.66, some £8.30 difference from the actual 2009/10 average rent. This target rent has been increased by 0.5% above RPI to establish the target rent throughout.

Rent:	2009.10	2010.11	2011.12	2012.13	2013.14	2014.15	2015.16	2023/24
Actual	76.36	77.32	80.22	83.24	86.37	89.62	92.99	124.94
Target	84.66	85.08	87.63	90.26	92.97	95.76	98.63	124.94

The rental income is based on a 52 week period in line with the HRA subsidy determination assumptions.

### **Voids & Bad Debts**

The figures relate to those in the 2009.10 budget which translate to a rate of 2% in total. This percentage remains consistent throughout the Plan.

### **Other Income**

The figures relate to those in the budget which translate to:

Charges for Services	£488,369
Cont towards Expend	£103,644
Non Dwelling Rents	£207,578
Other Minor Income	£5,592

These are projected to increase by RPI only, matching increases for Management costs within the plan.

### **Right To Buy**

We have not allowed for any Right To Buy sales throughout the plan due to the fact that the Council has experienced a severe drop in the level of sales at present.

### **Other Stock Changes**

There are no further stock reductions in this plan such as transfers, demolitions and conversions.

### **Housing Subsidy**

Management and Maintenance Allowances

	2009/10 Allowance
M&M Repairs	£974.41
M&M Management	£420.54

### **Rent Restructuring**

The formula rent real terms increase is input at 0.5% real as per CLG guidance.

The model automatically converges the limit rent and guideline rent to the formula rent by 2023/24.

Supported Borrowing Approvals have been estimated for the HRA for the period of the plan as follows:

Yr 1 to Yr 5            £ NIL

This is due to the Council being Housing Debt-Free.

### **Major Repairs Allowance**

The 2009/10 MRA of £670.53 has been used in these projections and will increase by RPI only.

### **Supervision & Management Costs**

The costs identified in the model for general and special management costs reflect those in the 2009/10 budgets.

Costs are to increase by RPI only, to reflect expected Annual Efficiency targets.

### **Miscellaneous Expenses**

Rents and Other Charges	£30,190	RPI Only
Corporate Costs	£267,000	RPI Only
HRA share of Pension Deficit	£103,050	RPI Only

### **Rent Rebates**

Costs to the HRA for housing benefit have been adjusted to reflect the transitional costs of moving rent rebates from the HRA to the General Fund. These are calculated to be NIL.

### **Responsive Repair Costs**

These costs are taken from the brand new stock condition survey produced by MDA, This area of cost is consistent with Council budgets.

### **Catch and Major Works and Improvements**

These as above are taken from the report produced by MDA and are based on the survey work they did and the need for specific repairs to maintain the decent homes standard

All repair categories are expected to grow by no more than RPI in any year throughout the plan.

### 3. Projections

#### Housing Revenue Account

The HRA medium to long-term position appears unstable given the high negative subsidy payment included in the Other Costs column. An estimated 45% of the gross rent expected will be paid to CLG.

HOUSING REVENUE ACCOUNT												
Year	Net Rent	Other Income	Total Income		Management	Rev. Repairs	Other Costs	HRA Subsidy	RCCO	Total Expend	In-Year Balance	Cum. Balance
												304
1	2009.10	11,198	805	12,004	(2,664)	(1,842)	(2,314)	(5,132)	0	(11,952)	52	356
2	2010.11	11,340	805	12,145	(2,664)	(1,842)	(2,301)	(5,280)	0	(12,087)	58	413
3	2011.12	11,766	825	12,591	(2,731)	(1,888)	(2,350)	(5,564)	0	(12,534)	58	471
4	2012.13	12,208	846	13,054	(2,799)	(1,935)	(2,409)	(5,861)	0	(13,005)	49	521
5	2013.14	12,668	867	13,535	(2,869)	(1,983)	(2,464)	(6,170)	(323)	(13,810)	(275)	245
6	2014.15	13,144	889	14,033	(2,941)	(2,033)	(2,546)	(6,493)	(39)	(14,052)	(19)	226
7	2015.16	13,638	911	14,549	(3,015)	(2,084)	(2,610)	(6,829)	(12)	(14,549)	0	226
8	2016.17	14,151	934	15,085	(3,090)	(2,136)	(2,675)	(7,179)	(4)	(15,084)	1	227
9	2017.18	14,683	957	15,640	(3,167)	(2,189)	(2,742)	(7,543)	0	(15,643)	(2)	224
10	2018.19	15,236	981	16,217	(3,246)	(2,244)	(2,811)	(7,923)	0	(16,225)	(9)	216
11	2019.20	15,809	1,006	16,814	(3,328)	(2,300)	(2,882)	(8,319)	0	(16,829)	(15)	201
12	2020.21	16,403	1,031	17,434	(3,411)	(2,358)	(2,954)	(8,732)	0	(17,454)	(21)	180
13	2021.22	17,020	1,056	18,076	(3,496)	(2,417)	(3,029)	(9,161)	0	(18,102)	(26)	154
14	2022.23	17,660	1,083	18,743	(3,583)	(2,477)	(3,105)	(9,608)	0	(18,774)	(30)	124
15	2023.24	18,324	1,110	19,434	(3,673)	(2,539)	(3,184)	(10,073)	0	(19,469)	(34)	89
16	2024.25	18,874	1,138	20,012	(3,765)	(2,603)	(3,264)	(10,417)	0	(20,048)	(36)	53
17	2025.26	19,440	1,166	20,607	(3,859)	(2,668)	(3,346)	(10,772)	0	(20,644)	(38)	15
18	2026.27	20,024	1,195	21,219	(3,955)	(2,734)	(3,431)	(11,138)	0	(21,259)	(40)	(24)
19	2027.28	20,624	1,225	21,849	(4,054)	(2,803)	(3,545)	(11,517)	0	(21,919)	(70)	(94)
20	2028.29	21,243	1,256	22,499	(4,156)	(2,873)	(3,634)	(11,908)	0	(22,571)	(72)	(166)
21	2029.30	21,880	1,287	23,168	(4,260)	(2,945)	(3,725)	(12,312)	0	(23,241)	(74)	(240)
22	2030.31	22,537	1,319	23,856	(4,366)	(3,018)	(3,818)	(12,729)	0	(23,932)	(76)	(315)
23	2031.32	23,213	1,352	24,565	(4,475)	(3,094)	(3,913)	(13,161)	0	(24,643)	(78)	(393)
24	2032.33	23,909	1,386	25,295	(4,587)	(3,171)	(4,011)	(13,606)	0	(25,375)	(80)	(472)
25	2033.34	24,626	1,421	26,047	(4,702)	(3,250)	(4,112)	(14,066)	0	(26,129)	(82)	(554)
26	2034.35	25,365	1,456	26,822	(4,819)	(3,331)	(4,214)	(14,539)	0	(26,904)	(83)	(637)
27	2035.36	26,126	1,493	27,619	(4,940)	(3,415)	(4,320)	(15,028)	0	(27,703)	(84)	(721)
28	2036.37	26,910	1,530	28,440	(5,063)	(3,500)	(4,428)	(15,533)	0	(28,525)	(85)	(805)
29	2037.38	27,717	1,568	29,286	(5,190)	(3,588)	(4,538)	(16,055)	0	(29,371)	(85)	(890)
30	2038.39	28,549	1,608	30,156	(5,320)	(3,677)	(4,652)	(16,594)	0	(30,243)	(86)	(977)

Housing Capital Account

The table below demonstrates the ability to deliver the programmed capital works for the almost the first four years of the plan. From year five the expenditure derived from the stock condition survey cannot be met.

MAJOR REPAIRS AND IMPROVEMENTS ACCOUNT												
Year	Major Repairs	Supp Borrow	RTB Receipts	Other Receipts	Major Rep Resve	RCCO	Total Finance	In-Year Balance	MRR Movements	Cum. Balance	Notional Cum. Bal	
										247		
1	2009.10	(1,915)	0	0	1,915	0	1,915	0	15	262	617	
2	2010.11	(1,203)	0	0	1,203	0	1,203	0	726	988	1,401	
3	2011.12	(2,089)	0	0	2,089	0	2,089	0	(111)	877	1,348	
4	2012.13	(1,190)	0	0	1,190	0	1,190	0	837	1,714	2,235	
5	2013.14	(11,314)	0	0	3,793	323	4,115	(7,199)	(1,714)	(7,199)	(6,954)	
6	2014.15	(3,416)	0	0	2,130	39	2,169	(1,247)	0	(8,446)	(8,220)	
7	2015.16	(3,501)	0	0	2,183	12	2,195	(1,306)	0	(9,752)	(9,526)	
8	2016.17	(3,589)	0	0	2,238	4	2,242	(1,347)	0	(11,098)	(10,872)	
9	2017.18	(3,678)	0	0	2,294	0	2,294	(1,385)	0	(12,483)	(12,258)	
10	2018.19	(3,770)	0	0	2,351	0	2,351	(1,419)	0	(13,902)	(13,686)	
11	2019.20	(4,299)	0	0	2,410	0	2,410	(1,889)	0	(15,791)	(15,590)	
12	2020.21	(4,407)	0	0	2,470	0	2,470	(1,936)	0	(17,727)	(17,547)	
13	2021.22	(4,517)	0	0	2,532	0	2,532	(1,985)	(0)	(19,712)	(19,558)	
14	2022.23	(4,630)	0	0	2,595	0	2,595	(2,034)	0	(21,746)	(21,622)	
15	2023.24	(4,745)	0	0	2,660	0	2,660	(2,085)	0	(23,831)	(23,742)	
16	2024.25	(4,860)	0	0	2,727	0	2,727	(2,133)	0	(25,964)	(25,911)	
17	2025.26	(4,981)	0	0	2,795	0	2,795	(2,186)	0	(28,150)	(28,135)	
18	2026.27	(5,106)	0	0	2,865	0	2,865	(2,241)	(0)	(30,391)	(30,416)	
19	2027.28	(5,233)	0	0	2,936	0	2,936	(2,297)	0	(32,688)	(32,782)	
20	2028.29	(5,364)	0	0	3,010	0	3,010	(2,354)	(0)	(35,043)	(35,209)	
21	2029.30	(5,893)	0	0	3,085	0	3,085	(2,808)	0	(37,850)	(38,090)	
22	2030.31	(6,040)	0	0	3,162	0	3,162	(2,878)	0	(40,729)	(41,044)	
23	2031.32	(6,191)	0	0	3,241	0	3,241	(2,950)	0	(43,679)	(44,071)	
24	2032.33	(6,346)	0	0	3,322	0	3,322	(3,024)	0	(46,702)	(47,175)	
25	2033.34	(6,505)	0	0	3,405	0	3,405	(3,099)	0	(49,802)	(50,356)	
26	2034.35	(4,418)	0	0	3,490	0	3,490	(927)	0	(50,729)	(51,366)	
27	2035.36	(4,528)	0	0	3,578	0	3,578	(950)	0	(51,679)	(52,400)	
28	2036.37	(4,641)	0	0	3,667	0	3,667	(974)	(0)	(52,654)	(53,459)	
29	2037.38	(4,757)	0	0	3,759	0	3,759	(999)	0	(53,652)	(54,543)	
30	2038.39	(4,876)	0	0	3,853	0	3,853	(1,024)	(0)	(54,676)	(55,652)	

Conclusions:

The above projections show that, given the assumptions used, there is a balanced position up to and including year 4 (2012/13) of the Plan, but in year 5 the stock condition survey projects a major capital spend which within the current regime, is unaffordable and then beyond this the repairs position gets worse.

Further work should be undertaken with regard to the stock condition survey, in terms of ratification of all assumptions.

**4. The Consultation Paper – Reform of Council Housing Finance issued by CLG in July, 2009**

The above consultation paper sets out proposals for far-reaching reform of the housing subsidy system.

In summary the proposals are based on the following principles:-

- Local authorities (LAs) will be freed from the constraints of the existing subsidy system;
- No positive or negative housing subsidy would be payable by Government;
- LAs will be allowed to retain receipts from rents and RTB sales;
- Each LAs will need to produce a business plan based on assumptions to be agreed for management, maintenance and capital investment;
- Capital investment will be based on a level slightly higher than the Decent Homes standard;
- The business plan will be used to assess the level of debt that the LAs can afford. Debt of that level will then be allocated to the LA;
- In practice it is the Governments intention to redistribute LAs housing debt on the basis of what each LA can afford, resulting in a major redistribution of debt between LAs.

CLG have indicated that the detail behind the proposals is unlikely to be available before next Spring and it is therefore difficult to assess the precise impact on any individual local authority although a very broad assessment could be made.

Furthermore it is highly likely that the proposed changes would require primary legislation which could not be put in place within the life of the current government. It is therefore likely, even with the support of the new government, that the changes would not be introduced before 2012/13.

## 5. Alternative Options

In light of the results of the HRA business planning exercise the next steps that a local authority would normally undertake would be to carry out a critical evaluation of the other available strategic housing options.

However the position is now less clear cut as a result of the consultation paper on reform of Council Housing finance. More specifically:

- The precise impact of how the proposals will impact on the Council and its tenants will not be clear until Spring 2010 at the earliest;
- Implementation of the proposals as they stand would severely reduce the attractiveness of the stock transfer option (see below)

As a first step in an options appraisal exercise we would expect the Council to agree a set of criteria against which the options could be evaluated and compared. As an example these might include:-

- Maintaining the stock at a standard that meets tenants aspirations;
- Maintaining and improving service delivery standards;
- Maintaining a sustainable HRA;
- Achievement of housing strategy objectives;
- Increase tenant and resident involvement;
- Support the Council broader economic and community objectives;
- Avoiding any negative impact on the General Fund;
- Ensuring that the option is deliverable.

## 6. Description of the main options

Stock transfer under current legislation - Stock transfer would involve transfer of both ownership and management of the housing stock to an alternative not for profit landlord. We would expect that stock transfer would offer an attractive alternative strategy for the Council. It would, subject to obtaining the support of the tenants:-

- Enable an attractive offer to be given to the tenants (eg .to bring the stock to the standard derived from the stock condition survey);
- Produce a capital receipt of in excess of £20 million for the Council.

However the Consultation Paper implies that, in future. LAs will only be able to offer the same standards of property improvements as would apply under stock retention and, secondly, any receipt to the LA would be used to repay "allocated" debt.

Based on our analysis of the Consultation Paper and subsequent discussions with Civil Servants we are of the view that implementation of the proposed reforms would mean that it would be extremely difficult to develop stock transfer proposals that are attractive to either tenants or the sponsoring local authority.

Finally what is not entirely clear is the attitude CLG will take to stock transfer proposals in advance of legislative changes.

## **7. Retention of existing arrangements**

The Council could continue with the existing arrangements whilst seeking to achieve the economies and efficiencies necessary to maintain a viable HRA. This could include for example:-

- Focussing almost entirely on delivery of core housing services;
- Reviewing existing practices to remove “non-essential” expenditure;
- Implementing an aggressive VFM regime.
- Consider the use of prudential borrowing.

## **8. Joint Working etc**

Alternative approaches to achieving the necessary efficiencies that could be considered include

- Shared services with
  - Neighbouring local authorities
  - Local housing associations
  - Joint procurement
- Partnership arrangement/outsourcing covering all or part of the housing management function.

## **9. Private Finance Initiative**

Consideration of how participation in one or more PFI schemes would assist the Council to meet its housing objectives.

This would include an analysis of latest government guidelines, potential scope and costs.

## **10. Recommendations**

Even given that further work needs to be done to these projections, it is clear that the Council faces a considerable challenge in the near future and will

need to think of corrective financial action to its HRA capital situation very soon.

We consider the Council should:

- a) Challenge the assumptions within the new stock condition survey as soon as possible.
- b) Then revisit the HRA Business Plan if any changes are agreed.
- c) Evaluate the proposed changes on the HRA in response to the Government consultation document on Review of Housing Finance. This may bring about a change in the way UDC's HRA balances look in the future and may give some answers to the capital shortfall.
- d) Given that action could be required, be prepared to undertake an up to date Options Appraisal in conjunction with all stakeholders to ascertain the way forward.

Andy Chapman and Alan Johnson  
August 2009