



EPPING FOREST DISTRICT
COUNCIL - FINANCIAL PLAN
2017/18

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1. Introduction

1.1 The Council's Housing Revenue Account (HRA) business planning consultants have prepared this HRA Financial Plan, following detailed consideration by the Council's Communities Select Committee and Housing Portfolio Holder. The Council has produced a Financial Plan since 2011, which has been continually reviewed from the implementation of self-financing and remains subject to quarterly reviews. Previously, the Financial Plan formed part of the Council's annual Housing Revenue Account (HRA) Business Plan. However, following the Council's corporate decision to cease all detailed business plans (replacing them with much shorter Directorate Action and Resource Plans), the Financial Plan is now produced as a stand-alone document.

1.2 This is the fifth Financial Plan since the introduction of self-financing and provides for a firm base of certainty given that the level of debt taken on the 28th March 2012 and interest rates of the fixed loans that funded this transaction have commenced. The Plan is based on the latest information available in terms of the Council Housebuilding Programme, capital investment requirements, Government policy and any refinancing implications.

2. Executive Summary

2.1 The HRA Self-Financing Regime commenced April 2012 with a debt allocation to the Council of £185.456million. This latest version of the Financial Plan demonstrates that the HRA remains viable throughout all the years of the Plan, although partial refinancing of debt is required, whilst the continuation of the Council Housebuilding Programme and the ability to fund long-term housing improvements and service enhancements is achievable. The Plan has the potential to repay the allocated debt within a period of 26 years, according to the schedule of fixed loan repayments, based on the assumptions contained within the Plan.

2.2 The Financial Plan will require continual updating on the basis of the changes to levels of right to buy sales, implementation of new Government policy, amendments to the Council Housebuilding Programme, future inflation, in-year budget amendments, changes to investment levels and interest earned on balances.

3. Underlying assumptions

3.1 A detailed HRA Financial Plan model has been produced for the Council, launched from 2016/17, and based on the latest out-turn forecasts for 2016/17 and the agreed budgets for 2017/18, with the following key assumptions:

- Balanced to the forecast out-turn HRA budgets for 2016/17 and approved budgets for 2017/18;

- Balanced to the forecast HRA Capital Programme for major works for 2016/17 - 2020/21 with additional expenditure and variations to funding where required;
- Rents not increasing as per the Government's original policy of CPI plus 1%, but under the new Government directive of 1% reductions each year up to and including April 2019. The exception being new tenancies being re-let at their formula rent, with the annual 1% reduction being applied thereafter. From April 2020, it is assumed that rents will increase once again by CPI plus 1%, based on the most recent Government statement from the former Chancellor of the Exchequer, George Osborne;
- General Inflation set at 2.5% (the exception being rent increases, the 2017/18 budgets and HRA Capital Programme up to 2020/21);
- Right to Buy sales were 46 in 2016/17 and estimated at 30 for both 2017/18 and 2018/19, then with a gradual reduction thereafter;
- Continuation of the required internal borrowing for the General Fund from the HRA, to ensure a neutral position for the General Fund compared to the situation prior to self-financing;
- Interest rates as per the treasury schedule (below) with internal borrowing rates rising from 1% to 2%;

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

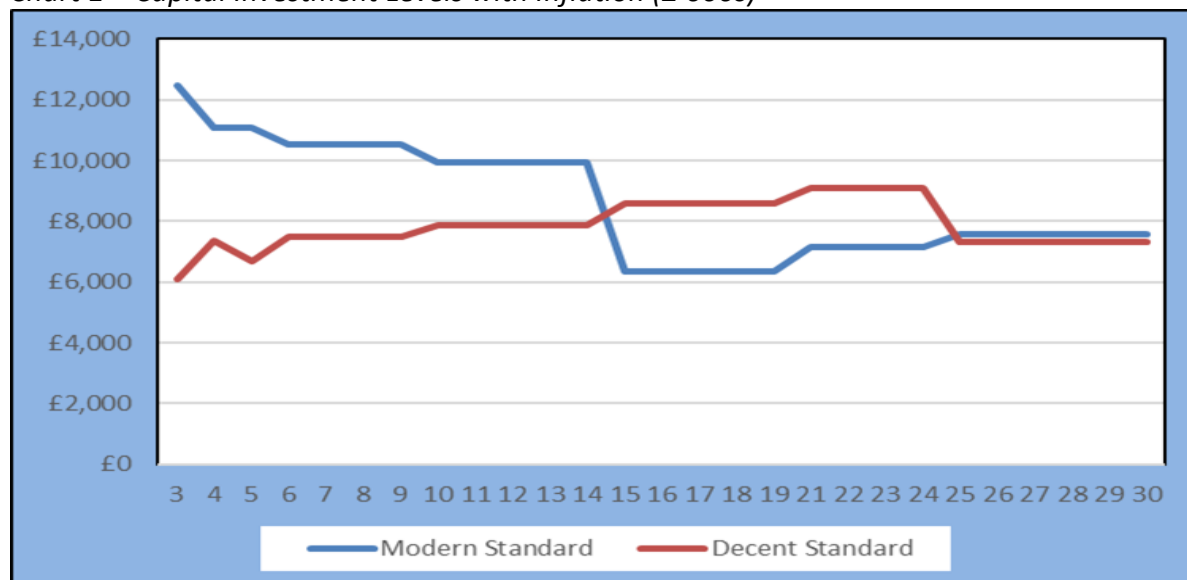
- Housing improvements and service enhancements to benefit tenants, when affordable in the longer-term;
- A Council Housebuilding Programme of 221 homes over 4 years (averaging 55 per annum) to maximise the use of 1-4-1 receipts from higher than anticipated right to buy sales; and
- The previous purchase from the open market of 6 properties to minimise the amount of right to buy receipts returned to the Government.

3.2 The most critical assumption relates to the required stock investment and needs. Due to a re-evaluation of the HRA finances by the Council, through its Stage 1 HRA Financial Options Review undertaken in March 2017, and the wish to continue with the Council

Housebuilding Programme, the previously modelled full maintenance standard (known as the Modern Home Standard) for the Council's housing stock has reverted to the Decent Homes Standard, introducing extended replacement life-cycles. The database for capital investment needs is continually being updated and the February 2017 iteration is included within this Plan.

3.3 The differences between the two standards is presented graphically below:

Chart 1 – Capital Investment Levels with Inflation (£'000s)



In overall terms the reduction in capital expenditure over 28 years is £17.575million. The key benefit for reducing to the Decent Homes Standard is in the reduction of required expenditure in the earlier years (i.e. years 3 to 14). 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. Headline Outputs

4.1. This latest version of the Financial Plan has been modelled with the assumptions detailed above. Due to the annual rent reductions and increases of expenditure for the Council Housebuilding Programme set against reductions in investment in the current stock the following assumptions have been made:

- Repayment of the debt within 25 years (or 26 years from April 2016), as per the current loan portfolio, whilst holding a revised minimum balance of £2million (inflated);
- Refinancing of the £31.8million loan repayment of £12.292million in 2021/22 (year 6), repaid by 2023/24 (year 8) or £14.810million in 2021/21 repaid by 2024/25 if the

HRA were to purchase the s106 affordable homes at Pyrles Lane, Loughton as an extension to the Council Housebuilding Programme;

- Continuation of a Self-Financing Reserve, to hold funds sufficient to meet loan maturity dates;
- Gradual reduction over 5 years of reserves held in the Major Repairs Reserve and the Revenue Repairs Account

The table below identifies the levels of service enhancements and improvements which could potentially be funded by the Plan over a 30-year period (at today's prices) and/or could possibly be used to reduce the amount of borrowing (subject to exit penalties):

Years 1-5	£ Nil
Years 6-10	£1.175million
Years 11-15	£5.725million
Years 16-20	£9.000million
Years 21-25	£16.325million
Years 26-30	£57.500million
Total over 30 Years	£89.725million

4.2 The 2015/16 Financial Plan identified that £62.5million was available for service enhancements and improvements over 30 years, so the positive financial impact of changes to the Plan since last year are demonstrated in this increase, namely the reduction of the investment in the current stock to the Decent Homes Standard and also the Plan moving on a year. As highlighted above, reviews of the Plan will continue on a quarterly basis, since these may well impact on the deliverability of the service enhancements in the longer term.

4.3 The following charts set out:

- The in-year cashflow and balance projections for the HRA;
- The capital investment requirements (including the above service enhancements) and availability;
- The debt repayment profile
- The HRA Self-Financing Reserve

Chart 2 - HRA Projections (£'000s)

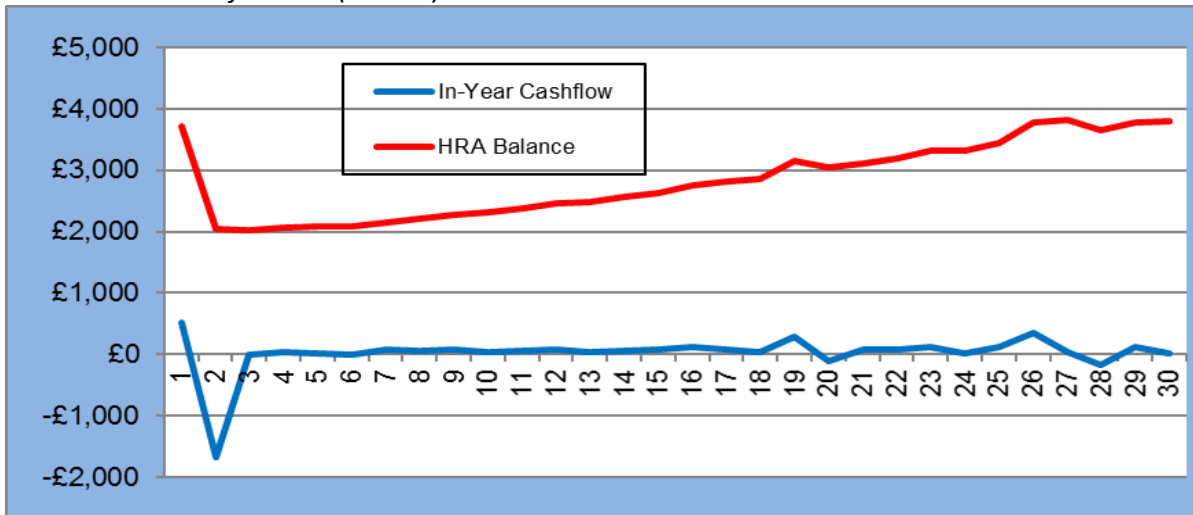


Chart 3 - Capital Expenditure Profile and Funding (£'000s)

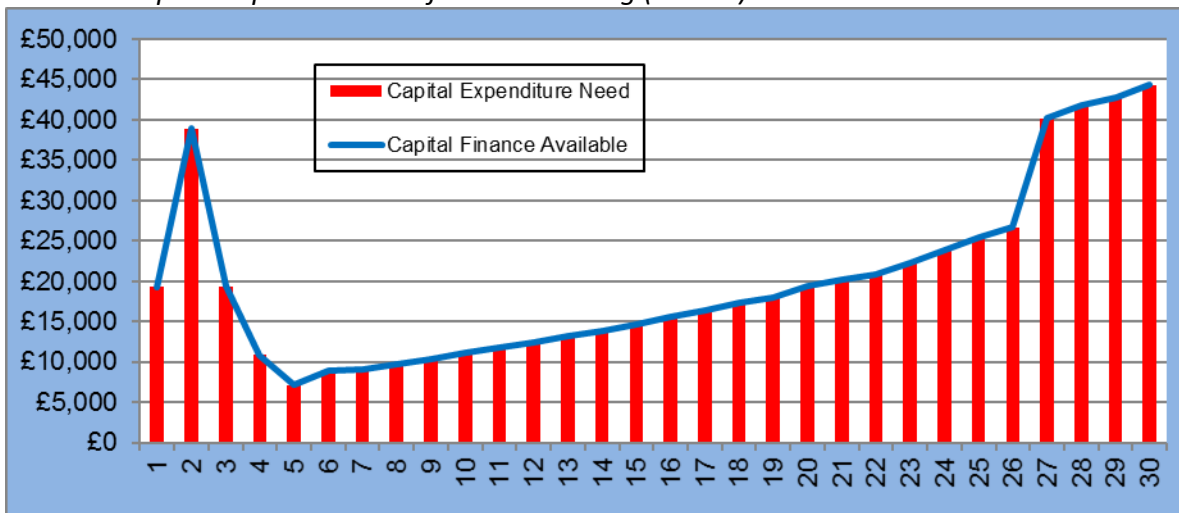


Chart 4 - Projected Debt Profile (£'000s)

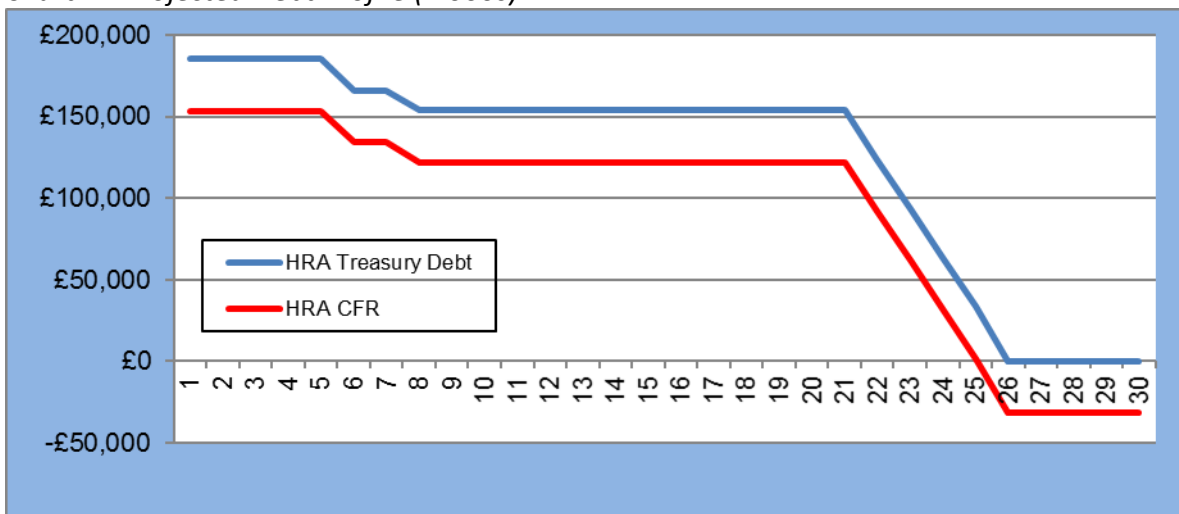
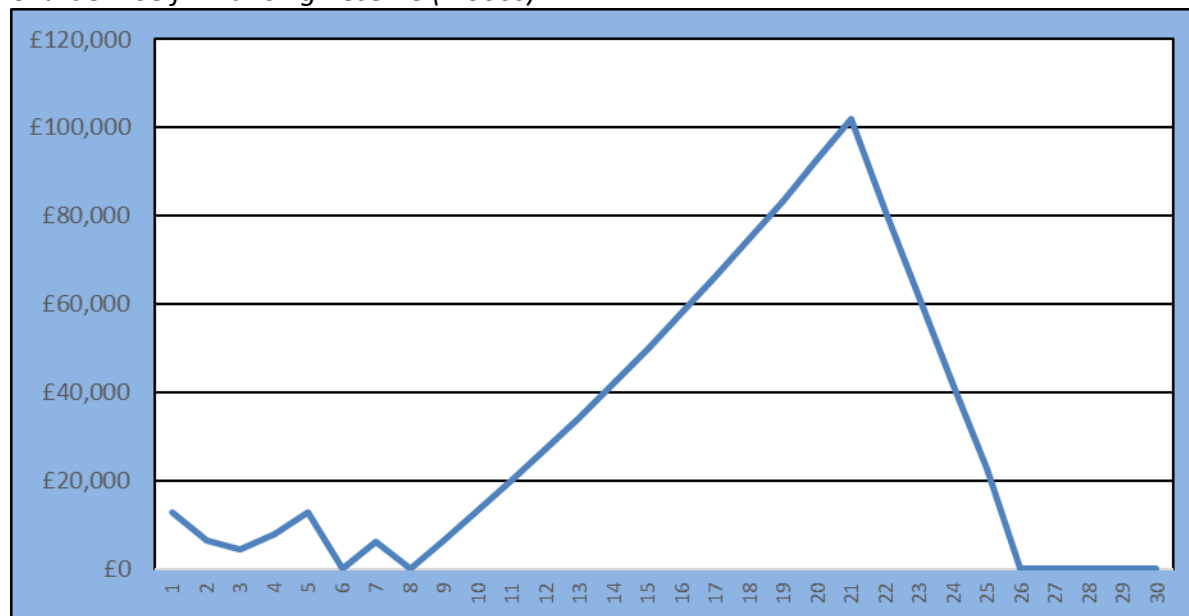


Chart 5 – Self-Financing Reserve (£'000s)



4.4 The charts above firstly demonstrate that the HRA remains in positive balance throughout the 30 years of the Plan. However, in order to achieve this, part-refinancing is required of £12.292million to fund the full Housebuilding Programme.

4.5 The Plan, based on these assumptions, also has the potential to repay the HRA element of debt (HRA CFR) within 25 years (or 26 years from April 2016) and includes actual interest rates, assumptions as to interest levels for internal borrowing between the HRA and the General Fund and provision for improvements / service enhancements. At the end of 26 years the HRA will be in the same position as prior to self-financing, with no attributable debt and a negative HRA CFR.

4.6 The Self-Financing Reserve is funded directly from contributions from the HRA, which are forecast to increase on an annual basis (with exceptions for years 2 to 3 to fund the Council Housebuilding Programme) and reduced when loans mature. Interest earned on the balances is credited to the HRA.

5. Sensitivities

5.1 Given that the Financial Plan has been specifically modelled to repay the debt settlement over a 26-year period, by decreasing the levels of capital expenditure, it proves that the Plan is viable but not wholly resilient to changes in the key assumptions. This is particularly relevant, as some significant increases will impact on the increasing of the refinancing requirement in the short to mid-term and impact on service enhancements in the longer-term.

5.2 In addition, at the time of writing, the outcome of the General Election is awaited. If the Conservative Party is returned to Government, although there was no specific reference in their Election Manifesto, it is unknown whether their previous policy to require stock

retained councils to sell higher value voids properties, to fund an annual levy payable to Government, will be continued. If it does, it would have a significant impact on the Council's HRA, which the Council has already agreed would trigger a Stage 2 HRA Financial Options Review. It is understood that the other main political parties have said that they would rescind this policy.

5.3 It must be noted that all management, maintenance and capital expenditure are forecast to increase by base inflation only and therefore any real increases above these provisions will have to be met by efficiency savings or reductions in future service enhancement levels.

6. Next Steps for The Council

6.1 The previous Government reinvigorated the Right to Buy (RTB) policy, coinciding with the commencement of the Council's first Financial Plan. The Council continues to see an increase in the number of right to buy sales which does have an impact on the Plan in terms of providing additional resource for the provision of new build or open market acquisition but with additional receipts and loss of future rental income from the higher level of properties sold. Whilst the Plan allows for an increased volume of sales, the situation will continue to be carefully monitored. This is particularly important in ensuring that all receipts are utilised in a timely manner to avoid returning these to the Government.

6.2 The Council also needs to await the outcome of the General Election and subsequent announcements on the future of the policy for local authorities to sell their higher value void properties, which will determine whether or not the Council needs to undertake a Stage 2 HRA Financial Options Review.

6.3 CIPFA are yet to finalise the calculation of future depreciation charges under componentisation of assets and therefore the transitional arrangements have been used throughout the life of the Plan, but it is expected that there will be little or no impact from any changes made.

6.4 Once the latest cash flows and estimates for the Council Housebuilding Programme have been assessed, the required additional borrowing or refinancing of existing loans will need to be arranged.

7. Risk and Reward

7.1 Having moved to self-financing for the HRA it has significantly altered the risk profile in HRA Financial Plans and for the Council's Housing Service since 2012.

7.2 We have classified the following risks under the headings shown:

Description	Impact	Likelihood	Mitigation and residual risk
Inability to spend all 1-4-1 Receipts within 3 years, resulting in payment to DCLG	MEDIUM	HIGH	Although accepted that payments to DCLG are now inevitable, ongoing financial monitoring enables understanding of the position and progress with housebuilding phases will be progressed as soon as possible
Insufficient knowledge of current stock causes unknown liabilities	HIGH	LOW	Surveys are undertaken on regular basis, with databases continually updated.
Cost inflation is higher than income inflation	HIGH	MEDIUM	Continuation of effective budget and financial control -> reduce impact to MEDIUM or LOW
Interest rates rise	MEDIUM	LOW	Flexible approach to debt funding giving opportunities to refinance
Right to Buy levels increase	MEDIUM	MEDIUM	Depends on Government policy towards future discounts, reintroduction of pay to stay and moves in the housing market; managing costs to the number of properties held -> reduce impact to LOW (but impact on availability of housing)
Restriction on housing benefits; introduction of Universal Credit	HIGH	HIGH	Intensive management and services to vulnerable tenants -> reduce likelihood to MEDIUM
Government revisits the self-financing settlement	HIGH	MINIMAL	No action by the Council, but investment of available resources could reduce scale of impact.
Rent increases are not implemented in accordance with Government expectations	HIGH	MINIMAL	This Plan takes into account the latest guidance on social rents

EPHING FOREST DISTRICT COUNCIL - FINANCIAL PLAN 2017/18

HOUSING REVENUE ACCOUNT PROJECTIONS

Epping Forest DC

Year	2031.32	2032.33	2033.34	2034.35	2035.36	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44	2044.45	2045.46	
£'000	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
INCOME:																
Gross Rental Income	46,641	48,064	49,527	51,032	52,579	54,178	55,832	57,533	59,283	61,085	62,938	64,846	66,810	68,830	70,910	
Void Losses	-421	-434	-447	-460	-474	-489	-504	-519	-535	-551	-568	-585	-603	-621	-640	
Charges for Services & Facilities	2,476	2,537	2,601	2,666	2,733	2,801	2,871	2,943	3,016	3,092	3,169	3,248	3,329	3,413	3,498	
Non-Dwelling Rent	1,260	1,292	1,324	1,357	1,391	1,426	1,462	1,498	1,536	1,574	1,613	1,654	1,695	1,737	1,781	
Contribution From General Fund	537	550	564	578	593	607	623	638	654	671	687	704	722	740	759	
Total Income	50,493	52,010	53,570	55,173	56,821	58,524	60,283	62,093	63,955	65,870	67,840	69,867	71,953	74,100	76,308	
EXPENDITURE:																
Supervision & Management - General	-7,842	-8,038	-8,239	-8,445	-8,656	-8,873	-9,094	-9,322	-9,555	-9,794	-10,038	-10,289	-10,547	-10,810	-11,081	
Supervision & Management - Special	-5,508	-5,645	-5,787	-5,931	-6,080	-6,232	-6,387	-6,547	-6,711	-6,878	-7,050	-7,227	-7,407	-7,593	-7,782	
Other Management Expenditure	-674	-691	-708	-726	-744	-763	-782	-801	-821	-842	-863	-884	-906	-929	-952	
Provision for Bad/Doubtful Debts	-232	-239	-247	-254	-262	-270	-278	-287	-295	-304	-314	-323	-333	-343	-353	
Contribution to Repairs Fund	-8,717	-8,935	-9,159	-9,388	-9,622	-9,863	-10,110	-10,362	-10,621	-10,887	-11,159	-11,438	-11,724	-12,017	-12,318	
Total Revenue Expenditure	-22,974	-23,549	-24,139	-24,744	-25,364	-26,000	-26,651	-27,319	-28,003	-28,705	-29,424	-30,162	-30,917	-31,692	-32,486	
Interest Payable on Loans	-5,348	-5,348	-5,348	-5,348	-5,348	-5,348	-5,339	-4,301	-3,260	-2,216	-1,168	0	0	0	0	
Treasury Management Expenses	-88	-90	-92	-94	-97	-99	-102	-104	-107	-109	-112	-115	-118	-121	-124	
Interest on Receipts & Balances	1,671	1,835	2,003	2,178	2,358	2,619	2,513	2,116	1,724	1,339	928	707	706	705	707	
Net Depreciation	-11,055	-11,331	-11,615	-11,905	-12,203	-12,508	-12,820	-13,141	-13,469	-13,806	-14,151	-14,505	-14,868	-15,239	-15,620	
Net Operating Income	12,700	13,526	14,378	15,260	16,167	17,189	17,884	19,343	20,839	22,372	23,912	25,793	26,756	27,753	28,785	
APPROPRIATIONS:																
FRS 17 /Other HRA Reserve Adj	-34	-35	-36	-37	-37	-38	-39	-40	-41	-42	-43	-44	-46	-47	-48	
Self Financing Reserve	-8,040	-8,295	-8,558	-8,830	-9,110	-9,399	-9,697	-10,005	-10,322	-10,650	-10,988	0	0	0	0	
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Capital Expenditure Charged to Revenue	-4,513	-5,123	-5,743	-6,102	-7,135	-7,679	-8,077	-9,179	-10,463	-11,562	-12,534	-25,710	-26,875	-27,584	-28,713	
Total Appropriations	-12,586	-13,453	-14,337	-14,968	-16,282	-17,116	-17,813	-19,223	-20,826	-22,254	-23,565	-25,754	-26,921	-27,631	-28,761	
ANNUAL CASHFLOW																
Opening Balance	2,638	2,751	2,825	2,867	3,159	3,044	3,117	3,188	3,308	3,320	3,438	3,785	3,823	3,659	3,780	
Closing Balance	2,751	2,825	2,867	3,159	3,044	3,117	3,188	3,308	3,320	3,438	3,785	3,823	3,659	3,780	3,804	
Other HRA Reserve Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Self Financing Reserve	57,804	66,099	74,657	83,487	92,596	101,995	81,692	61,697	42,019	22,668	0	0	0	0	0	
HRA New Build Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

EPPING FOREST DISTRICT COUNCIL - FINANCIAL PLAN 2017/18

HOUSING CAPITAL PROJECTIONS

Epping Forest DC

Year	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31
£'000	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
EXPENDITURE:															
New Build Lifecycle & Planned	0	0	0	0	0	0	-11	-92	-108	-110	-113	-128	-223	-244	-250
Existing Stock Lifecycle & Planned	-10,823	-14,340	-6,085	-7,349	-6,701	-8,352	-8,582	-8,818	-9,060	-9,783	-10,052	-10,329	-10,613	-10,905	-12,259
Disabled Adaptations	-430	-450	-400	-400	-410	-441	-452	-464	-475	-511	-524	-537	-551	-565	-608
Other Capital Expenditure	-108	-50	-50	-50	-50	-51	-53	-54	-55	-57	-58	-59	-61	-62	-64
Acquisitions Expenditure	-2,104	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Build Development	-5,848	-24,041	-12,845	-3,027	0	0	0	0	0	0	0	0	0	0	0
Service Enhancements/Improvements	0	0	0	0	0	0	0	-208	-609	-624	-992	-1,378	-1,748	-2,137	-1,484
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	-19,313	-38,881	-19,380	-10,826	-7,161	-8,845	-9,097	-9,635	-10,308	-11,086	-11,740	-12,431	-13,195	-13,912	-14,664
FUNDING:															
Major Repairs Reserve	9,984	18,543	8,224	8,220	6,869	-3,447	8,852	9,073	9,300	9,533	9,771	10,015	10,266	10,522	10,785
Right to Buy Receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRA CFR Borrowing	0	0	0	0	0	12,292	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	1,495	175	470	70	70	0	0	0	0	0	0	0	0	0	0
Right to Buy 1-4-1 Reserves	2,467	7,212	3,853	686	222	0	0	0	0	0	0	0	0	0	0
Self Financing Reserve	0	6,370	1,990	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	5,367	6,580	4,842	1,850	0	0	245	562	1,007	1,553	1,969	2,416	2,929	3,390	3,878
Total Capital Funding	19,313	38,881	19,380	10,826	7,161	8,845	9,097	9,635	10,308	11,086	11,740	12,431	13,195	13,912	14,664
In-Year Net Cashflow	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative Position	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MRR Account:															
Opening Balance	12,283	10,328	4	0	0	1,556	0	0	0	0	0	0	0	0	0
Net Contribution from Depreciation	8,029	8,220	8,220	8,220	8,426	8,636	8,852	9,073	9,300	9,533	9,771	10,015	10,266	10,522	10,785
Use of Reserve to Capital	-9,984	-18,543	-8,224	-8,220	-6,869	3,447	-8,852	-9,073	-9,300	-9,533	-9,771	-10,015	-10,266	-10,522	-10,785
Closing Balance	£10,328	£4	£0	£0	£1,556	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0

EPPING FOREST DISTRICT COUNCIL - FINANCIAL PLAN 2017/18

HOUSING CAPITAL PROJECTIONS
Epping Forest DC

Year	2031.32	2032.33	2033.34	2034.35	2035.36	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44	2044.45	2045.46	
£'000	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
EXPENDITURE:																
New Build Lifecycle & Planned	-256	-283	-445	-483	-495	-507	-520	-533	-546	-560	-574	-588	-603	-618	-633	
Existing Stock Lifecycle & Planned	-12,596	-12,942	-13,298	-13,664	-14,852	-15,260	-15,680	-16,111	-16,554	-13,650	-14,026	-14,411	-14,808	-15,215	-16,034	
Disabled Adaptations	-623	-638	-654	-671	-722	-740	-758	-777	-797	-857	-879	-901	-923	-946	-970	
Other Capital Expenditure	-66	-67	-69	-71	-72	-74	-76	-78	-80	-82	-84	-86	-88	-90	-93	
Acquisitions Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
New Build Development	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Service Enhancements/Improvements	-2,028	-2,524	-2,891	-3,119	-3,197	-3,605	-3,863	-4,820	-5,956	-10,219	-11,124	-24,229	-25,321	-25,954	-26,603	
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Capital Expenditure	-15,568	-16,454	-17,358	-18,007	-19,338	-20,186	-20,897	-22,319	-23,932	-25,368	-26,686	-40,215	-41,743	-42,824	-44,333	
FUNDING:																
Major Repairs Reserve	11,055	11,331	11,615	11,905	12,203	12,508	12,820	13,141	13,469	13,806	14,151	14,505	14,868	15,239	15,620	
Right to Buy Receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
HRA CFR Borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Other Receipts/Grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Right to Buy 1-4-1 Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Self Financing Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Revenue Contributions	4,513	5,123	5,743	6,102	7,135	7,679	8,077	9,179	10,463	11,562	12,534	25,710	26,875	27,584	28,713	
Total Capital Funding	15,568	16,454	17,358	18,007	19,338	20,186	20,897	22,319	23,932	25,368	26,686	40,215	41,743	42,824	44,333	
In-Year Net Cashflow	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Cumulative Position	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
MRR Account:																
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Net Contribution from Depreciation	11,055	11,331	11,615	11,905	12,203	12,508	12,820	13,141	13,469	13,806	14,151	14,505	14,868	15,239	15,620	
Use of Reserve to Capital	-11,055	-11,331	-11,615	-11,905	-12,203	-12,508	-12,820	-13,141	-13,469	-13,806	-14,151	-14,505	-14,868	-15,239	-15,620	
Closing Balance	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	