Epping Forest District Council
HRA Business Plan Report

1. Introduction

1.1 This report sets out the current position of the Housing Revenue Account, with forecasts over the next 30 years demonstrating its ability to meet the required investment standard to the existing stock and sustain balances without falling into deficit.

1.2 In addition to these forecasts we have been asked to identify additional capacity within the business plan to finance the following, whilst enabling the repayment of the debt taken on as a result of self-financing within a 30 year period:

- Housing Revenue Account new build
- Additional stock and environmental improvement and/or service improvements
- Reduced rent increases.

1.3 The coalition government has issued proposals to reform the Housing Revenue Account, namely the abolition of the HRA subsidy system and implementation of self financing following a one-of settlement at the end of 2011/12, which will happen through primary legislation via the forthcoming passage of the Localism Bill (expected in late November). This has been reinforced with a policy document, published on 28th July, which sets out the proposed arrangements around the transaction in detail.

1.4 The indicative settlement figure provided by CLG in February 2011 is subject to change in respect of a number of key areas:

- Update of inflation assumptions
- Update of stock numbers
- Rebasing of the allowances calculation
- Projected right to buy sales

It is difficult to accurately estimate at this stage how this position may change. We understand that the final draft settlement will be released in week commencing 21st November for consultation with finalisation on the 27th January 2012. The transaction will take place at the end of this financial year on the 28th March 2012.

1.5 This report is therefore very much an initial position statement and will require updating once the final draft and final settlement values are known, HRA budgets for next financial year are approved, decisions have been taken as to how the settlement will be funded and further details on proposed changes to the Right to Buy policy.

2. Stock Summary

2.1 Epping Forest District Council currently has 6,567 tenanted properties. No estate remodelling, demolitions have been included within these projections. We have made the provision for the transfer of 20 vacant bedits at Marden Close, Chigwell in year 3, with the associated adjustments to lost rental income and savings on maintenance within the plan.

2.2 The average actual 2011.12 weekly rent of the stock is £82.19 against formula rent of £88.09 per week. The formula or target rent is a government based formula to calculate a social rent for each individual property. It is calculated using a weighting factor for the number of bedrooms, the property value as at January 1999 and the county average earnings index. This formula rent is then increased by inflation (September RPI) plus 0.5% each year. The expectation of the government is that your actual rents will increase to meet or converge with the formula rent for each property by April 2015. This means that Epping Forest can expect higher than inflation increases over the next 4 years to achieve convergence, though much of this rent increase will be taken into account in the self-financing debt settlement. This is shown in a graphical context in Chart 7.1 in paragraph 7.13 further in this report.

3. Housing Revenue Account Budget and balances

3.1 As a basis for the financial modelling projections detailed later in this report, the core sources of data will be the Housing Revenue Account budget for 2011.12 and future assumptions for movements in expenditure and income both national and local.

3.2 HRA reserve balances are forecast to be £5.4million at the end of 2011.12. In addition there is a projected closing balance within the revenue repairs reserve of £3.6million which we have modelled to be fully utilised in year 2 of the plan for meeting repairs expenditure. The Council also holds a Major Repairs Reserve which fund capital works, where it is estimated the year end balance will be £5.9million. Again this balance will be used to fund future capital works within the plan.

4. Stock investment requirements

4.1 The Council holds a database of future stock investment requirements based on a series of components, replacement costs values and life-cycles for each individual property.

4.2 The chart below shows the total level of expenditure required for each year for the current number of properties and at today's prices.

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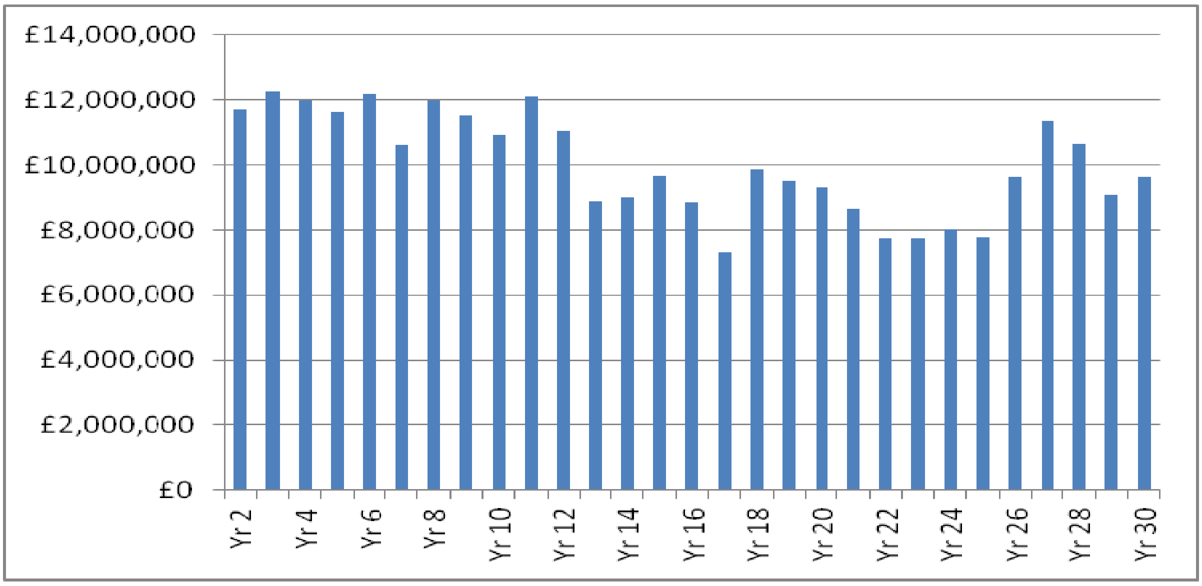
Chart 4.1 Stock Investment Requirements



4.3 The required expenditure over 30 years on a per unit basis is £45,760. Whilst this level of expenditure is above benchmarks, it does allow for component replacement on realistic basis and to a modern standard, above the minimum Decent Homes Standard. In addition, this figure provides for a provision for disabled adaptations. The current HRA capital programme, if rolled forward at the same level each year, is equivalent to £31,600 per unit, based on the Decent Homes Standard, over a 30 year period.

4.4 The Decent Homes Standard is defined as below:

a) Any residential premises should have a safe and healthy environment for any potential occupier or visitor (Formally the statutory minimum standard for housing)

b) It is in a reasonable state of repair

Dwellings which fail to meet this criterion are those where either:

- One or more key building components are old and because of their condition need replacing or major repairs: or
- Two or more of the other building components are old and because of their condition need replacing or major repair.

c) It has reasonable modern facilities and services

Dwellings which fail to meet this criterion are those which 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.

d) It provides a reasonable degree of thermal comfort

This criterion requires dwellings to have both effective insulation and efficient heating. To deliver against the targets the Council needs to:

- quantify the level of non decent housing both now and arising by 2010, in its stock;
- develop an investment strategy to tackle this; and
- measure progress towards its elimination.

4.5 The table below identifies the key differences in levels of replacements and improvements to the properties over years 2 to 5 of the plan as an example:

Table 4.2 Stock Investment Requirements over Years 2 to 5 of the Plan

Component:	Number of Properties benefiting from replacements under Recommended Life-Cycles (Modern Standard)	Element Life Cycle Years	Number of Properties benefiting from replacements under Extended Life-Cycles (Decent Homes Standard)	Element Life Cycle Years
Boiler replacements	1,735	16	1,158	24
Electric heating	166	16	100	24
Rewiring	1,103	32	551	40
Entrance door replacement	1,332	24	775	32
PVCu double glazing	1,853	24	551	32
Tiled roofing	1,349	40	639	48
Flat roofing	168	16	47	20
Water tank renewals	1,438	28	812	40
Door entry systems	1,304	16	692	40
Kitchen replacements	1,913	16	699	32
Bathroom replacements	1,764	24	403	40

5. Modelling Assumptions

5.1 We have developed a model specifically for projecting forward the HRA and capital forecasts under HRA self-financing.

5.2 The model is launched using the budgets for the 2011.12 HRA and capital programme and the above stock investment requirements from year 2.

5.3 The model then uses a series of assumptions for both core inflation and real inflation factors to the base costs. There are exceptions to these and they are covered in the following paragraphs.

5.4 RPI is factored at 2.5% throughout the model, with the exception of rent inflation for 2012.13. The 2011 September RPI has been published at 5.6% and we have facilitated this in the modelling with 2.5% from year 3 onwards.

5.5 Current rents are set in the model to converge by 2015.16 as described in paragraph 2.2 above.

5.6 Income for the following non rent income budgets has been set to increase at RPI only;

- Service charges
- Garage rents
- Other income.

5.7 General Management and Special (Service) costs are modelled at RPI only. Any future cost increases above general inflation such as increases to employer pension contributions, pay awards, supplies and services cost pressures, would have to be met by efficiency savings.

5.8 The void rate is set at 1% throughout to reflect current performance in year 1 and the bad debt provision is estimated to increase from 0.3% to 0.5% over the next 3 years to protect against the impact of future housing benefit reforms.

5.9 Right to Buy levels are estimated at an average of 7 per annum throughout the plan, again reflecting current levels, with corresponding adjustments to rental income. None of the available (un-pooled) capital receipt is forecast to be available to finance HRA capital expenditure. There is the potential that the pooling arrangement may change through proposals to change the Right to Buy policy. Further details will be known in national housing strategy due to be published in November.

5.10 The stock condition survey does not provide for procurement fees and we are advised that these are included within the current management costs, but have allowed a contingency of 1% due to the increased size of the future investment expenditure.

5.11 There are no increases above RPI for either capital and planned/revenue maintenance repairs and therefore any contingencies within the provisional costs will have to be utilised in the event of real inflation.

6. HRA outputs (HRA reform, self-financing)

6.1 On the 1st February, the Housing Minister confirmed that HRA reform would go ahead and a revised national model was issued along with proposals for its implementation. The position has moved further forward with a policy document issued in July providing further details and dates on the transaction.

6.2 The settlement transaction will be implemented on 28th March 2012.

6.3 The new system is based on moving towards a 'self financing' HRA in which negative or positive subsidy is exchanged for a single one-off adjustment of housing debt following which rental surpluses will be retained locally within the Council's HRA.

6.4 The allocation of debt is the Net Present Value of a cashflow estimate of rents, revenue and investment costs for all authorities over 30 years, based on subsidy rent assumptions which achieve convergence with targets by 2016 and subsidy allowance assumptions which include an uplift of funding. By linking the debt allocation to current and future subsidy assumptions, the government's intention is to make the settlement 'neutral' in national expenditure terms.

6.5 The headline debt settlement from CLG for Epping Forest amounts to £180.971m, based on uplifts of allowances of 13.41% including a new allowance for disabled adaptations.

6.6 Using the current proposed settlement of £180.971million, the debt adjustment for Epping Forest would be £141.645m which is arrived at by offsetting the current negative HRA Capital Financing Requirement (HRA CFR) of £39.326million.

6.7 However the proposed debt settlement is based on an estimated RPI uplift of 3.5% and the published index is much higher at 5.6% Epping Forest can expect a significant increase in its debt allocation. We estimate this to be £189.812million, though there is the potential for this to increase more through other changes to management allowances and future stock numbers. Therefore, as we have modelled a rent increase based on the 5.6% factor it would be appropriate to apply an estimated debt allocation within the model.

The table below demonstrates the difference:

<u>Table 6.1 – Variation to Debt Allocation re change in RPI</u>

	Current Settlement (Feb 11)	Estimated Settlement (Nov 11)
Debt Allocation	£180.971m	£189.812m
Current HRA CFR	-£39.326m	-£39.326m
Debt Adjustment	£141.645m	£150.486m
Debt Cap	£180.971m*	£189.812m
Borrowing Headroom	£39.326m	£39.326m

**Amended re paragraph 6.9*

6.8 Therefore the net payment funded by the HRA required on 28th March 2012 is estimated at £150.486million, unless the Council seeks to "over-fund" the HRA (see later Section on General Fund Impact). Note that all HRA exemplifications within this report are based on the HRA not overfunding. At this point we have modelled this settlement as being fully funded by newly arising loans.

6.9 In order to protect the public finances, the government will impose a debt cap on local authorities, set at the debt settlement value, being an estimated £189.812million for Epping Forest. The government model issued incorrectly stated that your debt cap would be £203.774million against the original debt allocation of £180.971million and we expect this error in the calculation to be corrected in the draft determination to be issued in November. Given that the actual debt will commence at an estimated £189.812million there is therefore borrowing headroom of £39.326million which can be utilised to fund future capital expenditure.

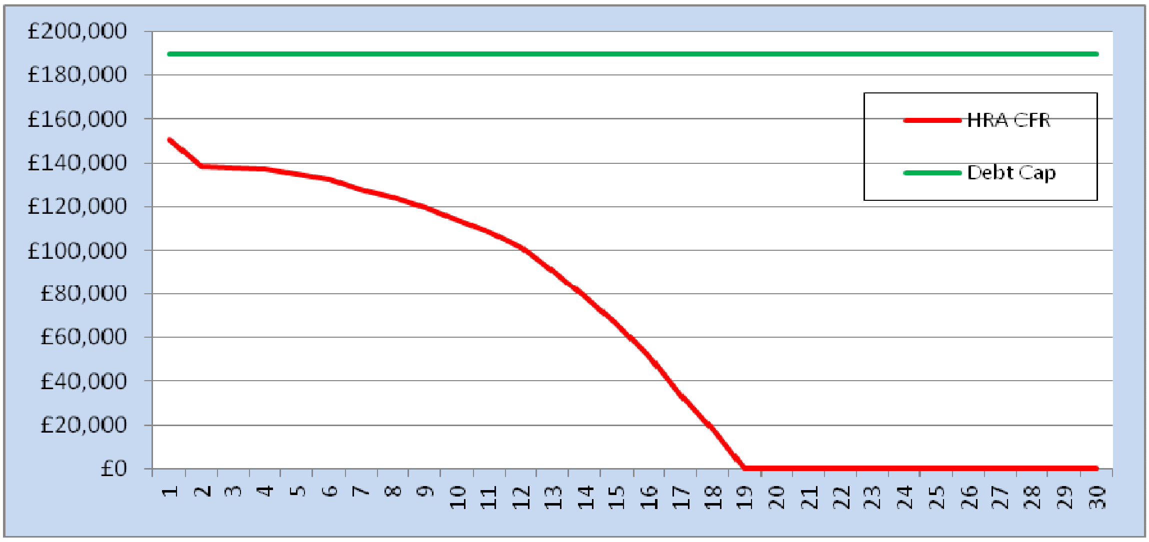
6.10 We have developed the model to allow debt to be repaid at the earliest opportunity in terms of demonstrating viability. The model ensures that the capital programme is fully financed, including top up from revenue contributions to capital from the HRA, whilst maintaining a minimum balance. In addition, if borrowing is required to meet needs in any year, the model allows for this up to the designated debt cap. Any capital shortfalls are carried over to the following year. Revenue costs are based on current expenditure and service levels, with an allowance for inflation (RPI only).

6.11 If capital expenditure can be fully financed, any remaining balances above the £2million minimum HRA balances are utilised for setting aside against the repayment of debt. This provides a debt graph that can be used to inform funding decisions as to the number and length of loan facilities. This graph is shown at chart 6.1 below.

6.12 The Council is exploring the range of funding opportunities open to it to fund the settlement payment, but for the purposes of this initial modelling we have used an all-in average rate of 4.75% for calculating interest charges. It was recently announced that discounted rates would be available for funding the self-financing settlement from the Public Works Loans Board. Hence we have modelled a reduced rate of interest compared to previous iterations.

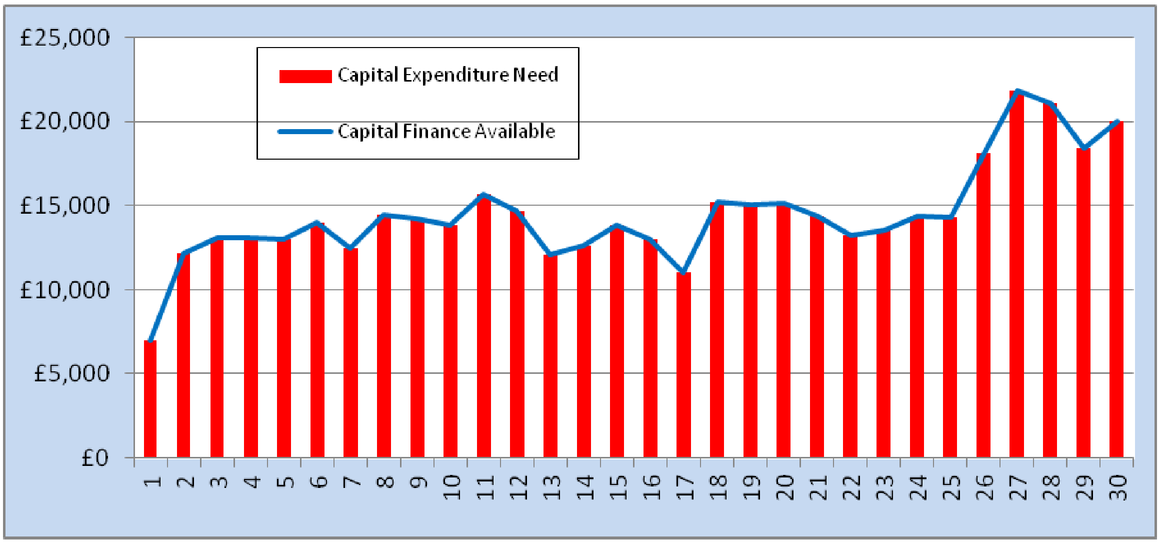
6.13 The graph below demonstrates the debt taken in year one and then the ability to repay from surplus revenue from year 2. There is the potential therefore, based on the assumptions set out above and the amount of the settlement allocation, for the debt to be repaid by year 19. This is partly achieved by reducing HRA balances to £2million and utilising the balances of the revenue repairs account.

Chart 6.1 Initial Base Debt Graph - £'000s



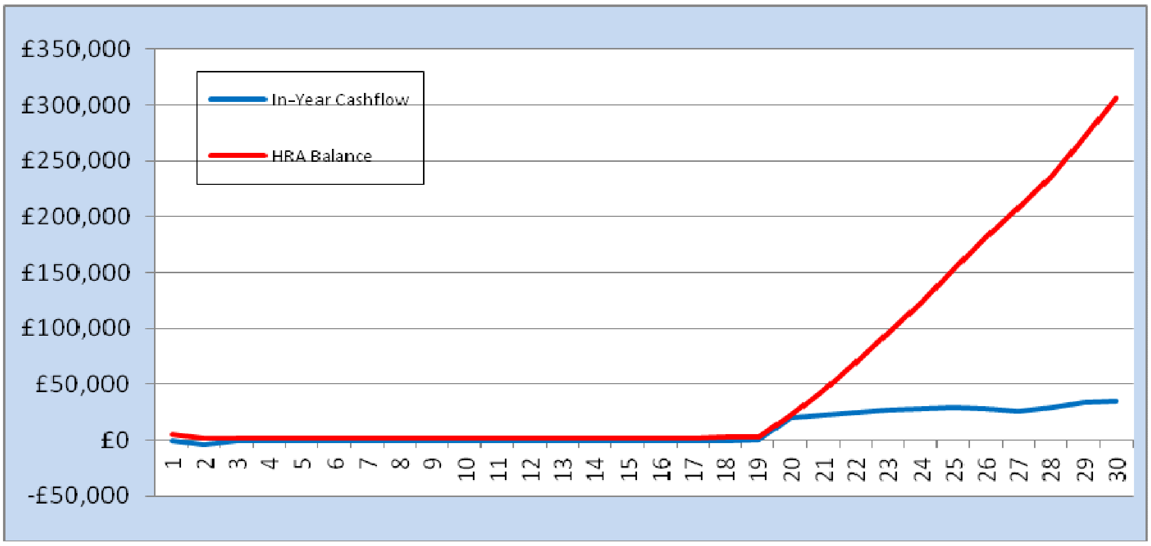
6.14 The chart below shows that the required capital expenditure can be fully resourced within each year. The actual cashlflows are demonstrated in Appendix Two of this report.

Chart 6.2 Initial Base Capital Expenditure and Resourcing - £'000s



6.15 As detailed in paragraph 5.10 we have included within these projections a small provision of expenditure for additional costs due to the large increase in expenditure over current levels. Further work is required to indentify the true allowance required, i.e. through increased staff numbers.

Chart 6.3 Initial Base Forecast HRA Balances - £'000s



6.16 The above graph shows the projected HRA balances over the next 30 years. The balance remains at £2 million, with an allowance for inflation, for the 19 years whilst the HRA fund both capital works and debt repayment where required. Following the position of debt repayment in year 19 balances will start to accrue to almost £306million in year 30. The cashflows are demonstrated in Appendix One of this report in greater detail.

6.17 In summary, the initial base business plan demonstrates a viable position, in fully financing capital investment requirements with the ability to service and repay the debt funding taken on for the self-financing transaction. Once debt is repaid balances will begin to accrue quickly within the HRA.

6.18 Whilst the plan demonstrates and is set to repay debt as early as possible, this may not be the best strategy. As identified balances start accruing in year 19 and decisions then would have to be made as how to best use those surplus requirements whilst plans could be made now to bring those benefits earlier by extending the debt repayment period. For example such a decision would mean that the opportunity for any new build, service enhancements or lower rent increases for the next 20 years could not be utilised. Also, the Government has stated that it reserves the right to revisit councils' debt settlements in the future. Whilst the Government has verbally given a commitment as to the reasons it might reopen the settlement there is always the risk that councils, like Epping Forest, becoming debt free on the HRA after 20 years, and then forecasting massive balances, could be asked to take on further debt in future years. Therefore, the Council may wish to adopt an alternative strategy.

6.19 There is therefore the capacity within the plan to finance additional expenditure through additional borrowing and/or extending the debt repayment period; an example scenario is examined in further detail in section 7 below.

7. Analysis of the capacity of the Business Plan

7.1 We have modelled some further options in respect of testing the capacity of the business plan through the three possible options identified in the introduction to this report.

All three options shown below illustrate the effects of the option under discussion only, compared to the base plan. Section 8 then shows the effects of combining these options.

Whilst there is borrowing headroom of £39.326million between actual debt and the debt cap we have restricted further borrowing above the initial borrowing for the debt settlement. In addition where there is the potential to repay debt in the early years the model prevents this so that no new borrowing is required. During this time balances will accrue within the HRA.

New build

7.2 There are several land sites within the HRA which offer potential for new build development. To enable build within the HRA the Council has three options:

1) To fund the new build without any external support in the form of grant and let at existing social rent levels or;

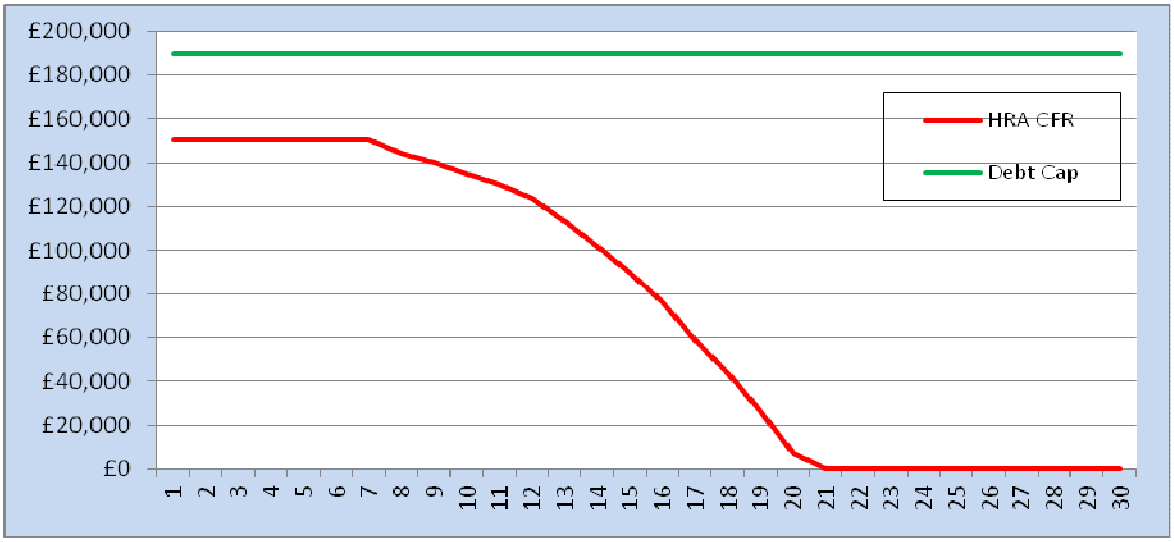
2) To fund the new build without any grant, at affordable rent levels (up to 80% of market rent). This is the likely option if the Council is not successful in obtaining grant in the next Affordable Homes Programme (if there is one);

3) To apply for grant from the Homes and Community Agency (HCA) where as part of the contract the new properties will be let on affordable rent (up to 80% of market rent).

7.3 We have assumed a total build of 120 units spread over 6 years from year 3 of the plan. Build costs of £125,000 per unit, a nominal management charge and future maintenance costs based on industry standards have been modelled.

7.4 Assuming no HCA grant and the new homes being let at a social rent of £90 per unit the debt profile changes as follows:

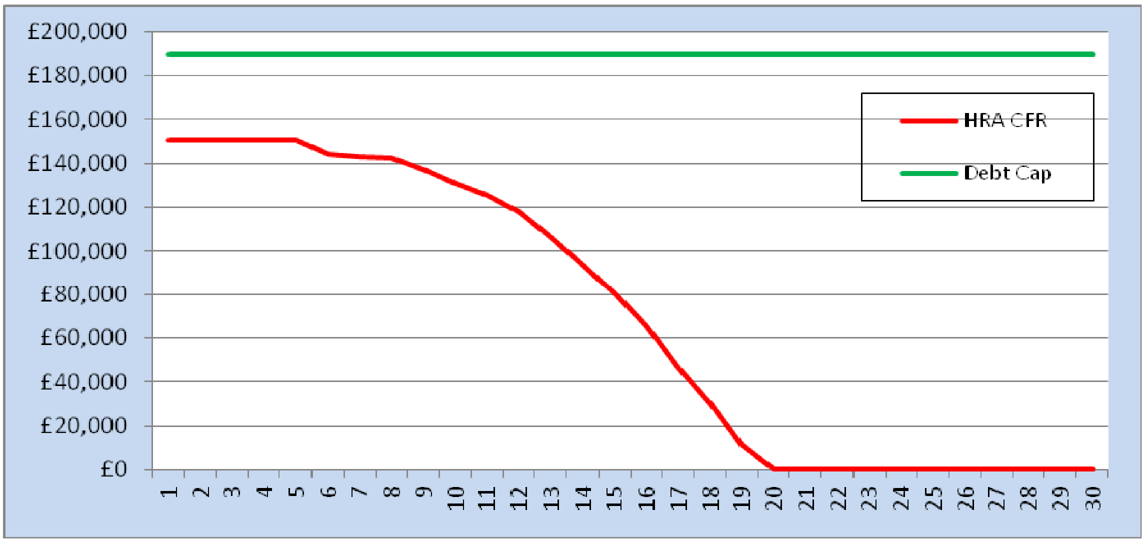
Chart 7.1 Initial Debt Graph with unsupported new build social rents - £'000s



7.5 The additional new build requires no additional borrowing and can be funded from existing resources without affecting planned expenditure on existing stock. This does extend the period of debt repayment by two years to year 21. Due to the lower rents and lack of grant funding, individual development schemes would not be self-funding (i.e. pay back for themselves within 30 years), and would therefore require significant subsidy from the HRA, hence the increase in debt repayment.

7.6 The following graph shows option 2 where the new build properties are re-let at affordable rents (equivalent to 80% of market rent) which is estimated at £180 per week.

Chart 7.2 Initial Debt Graph with unsupported new build affordable rents - £'000s

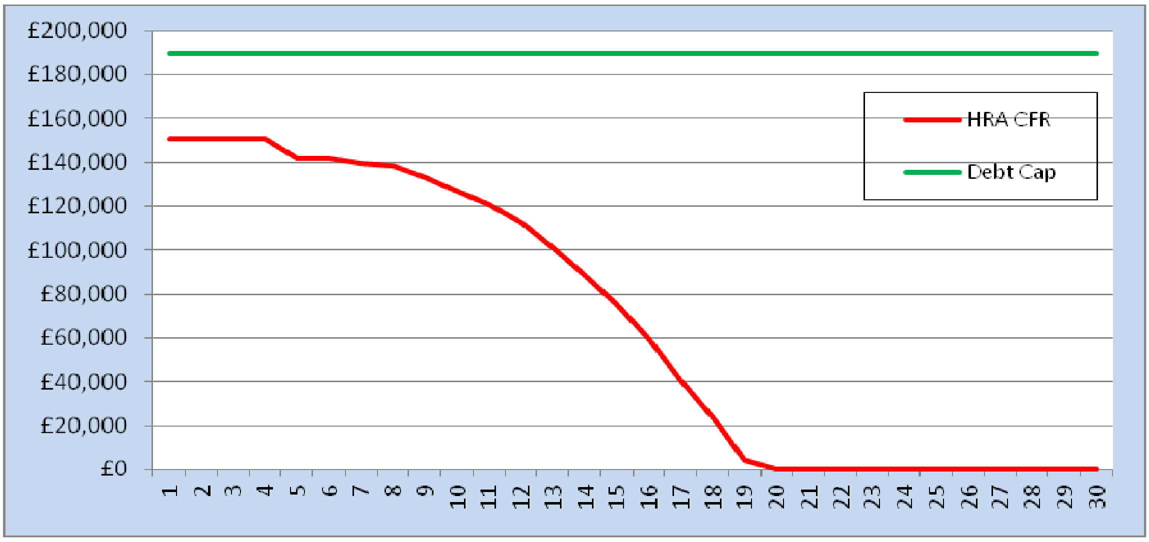


7.7 The graph demonstrates that, again without any additional borrowing, by having a higher rent level through affordable rents the new build scheme, whilst not paying for itself over 30 years, does not require as much subsidy from the HRA. This is shown by repaying the debt potentially in year 20, one less than with social rents applied and debt can start being repaid two years earlier.

7.8 The following chart is based on the third option above with the following assumptions:

- HCA grant received, based on 20% of build costs
- Affordable rent of £180 per week on new build properties

Chart 7.3 Initial Debt Graph with supported new build- £'000s

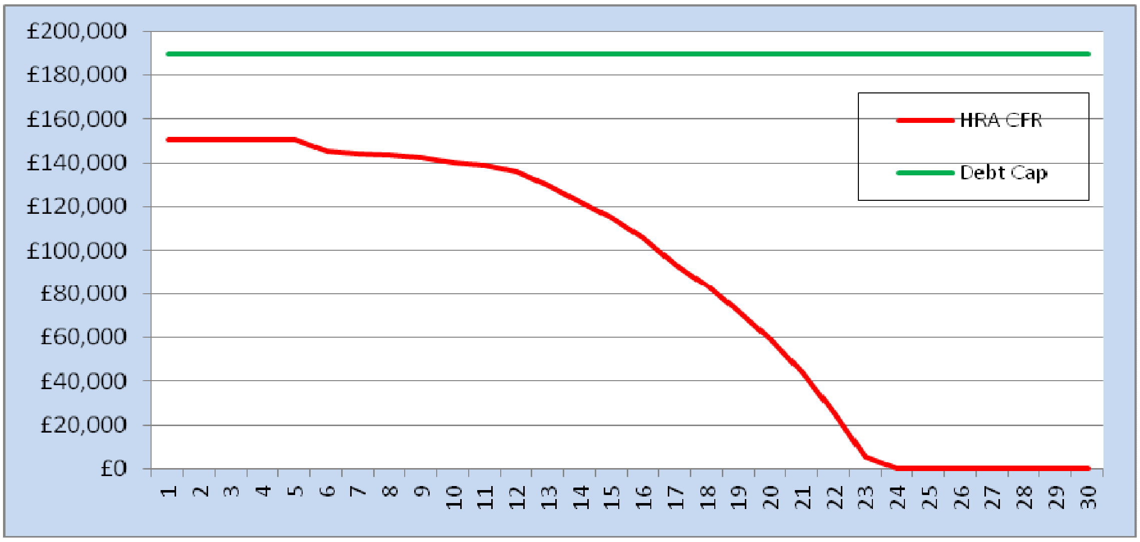


7.9 This approach again requires no additional borrowing and whilst the scheme will pay for itself over the 30 years due to drawing on the resources of the HRA that could have been repaying debt thus reducing interest charges the HRA does provisionally take an additional year to repay debt than without any new build.

Additional Stock, Service or Environmental Improvements

7.10 We have modelled additional expenditure of £2million per annum throughout the plan from year 2 for improvements and service enhancements, which can either be for capital or revenue expenditure. These could include, for example, a Solar PV Installation Programme to take advantage of the Feed-in-Tariff and/or the installation of mains-wired smoke detectors in all Council properties (both of which we understand the Council is currently considering) and/or improved landscaping schemes on Council estates.

Chart 7.4 Initial Debt Graph with additional expenditure of £2m- £'000s



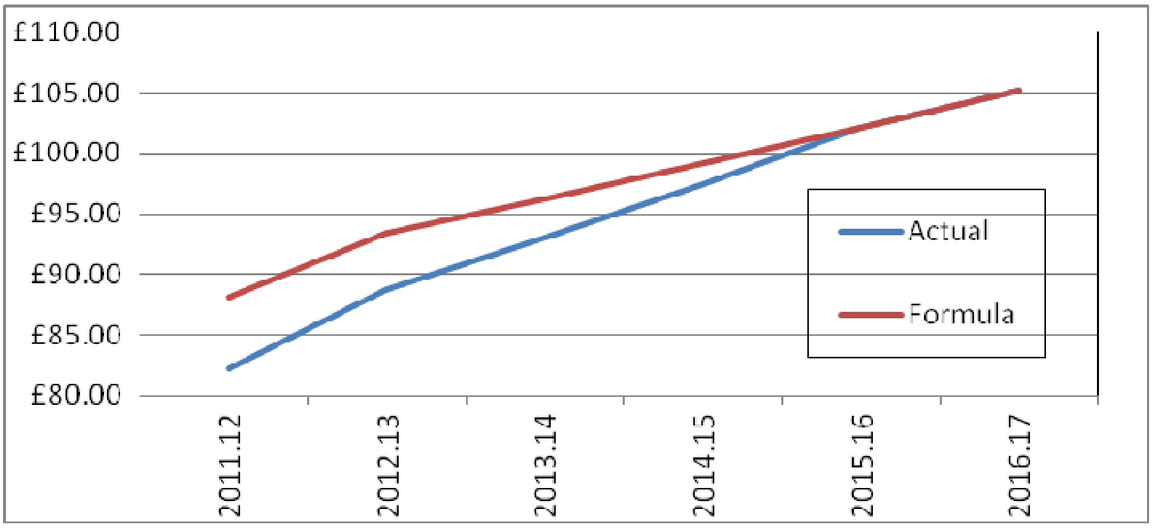
7.11 The additional expenditure of £2million per annum (equivalent to 6.3% of the total current year's revenue and capital expenditure), results in an increase to potential debt repayment to year 24 in comparison to the base plan.

7.12 If additional expenditure of £3million per annum was incurred (equivalent to 9.5% of the total current years revenue and capital expenditure), debt repayment would be potentially extended to year 27. However in some years some £2.6million of the additional expenditure may need to be re-profiled so that its does not affect existing stock investment.

Reduction in Rent Increases

7.13 The proposed debt settlement assumes that formula rents will increase by inflation (RPI) plus 0.5% and that current rents will converge with formula rents by April 2015. Therefore as RPI is 5.6%, and we have estimated the debt settlement accordingly, Epping Forest will have actual average rent increases of 8.0% in April 2012 and then around 4.8% for the following 3 years to convergence, based on an RPI of 2.5%. This is demonstrated in the graph below.

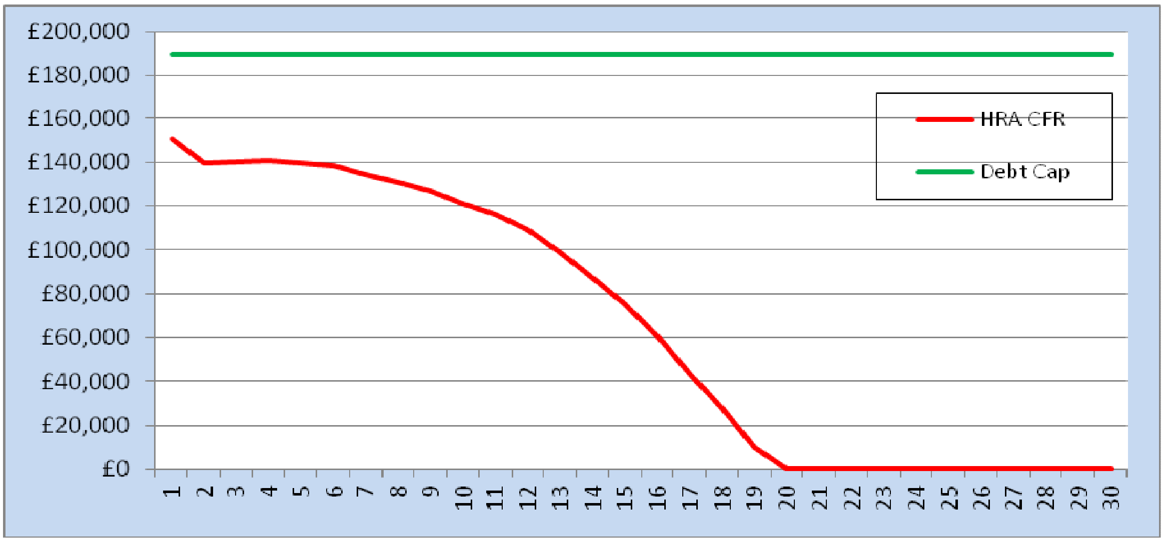
Chart 7.5 Future Projected Rent Increases in Line with Rent Restructuring



7.14 We have considered 3 alternatives as to reducing rent levels and increases;

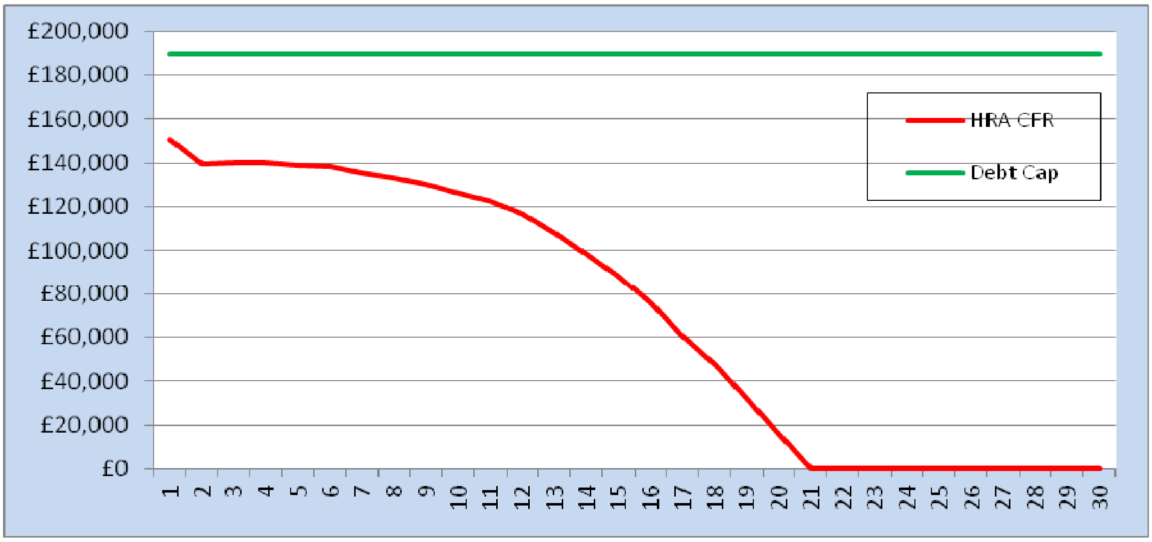
1) To increase rents by 4% in April and catch up the shortfall over 5 years (converging by April 2017) or
2) To increase rents by 4% and a 3% increase to the formula rent with convergence in April 2015 or
3) To increase formula rents by RPI only (without the additional 0.5% factor from April 2012) still converging by April 2015

Chart 7.6 Initial Debt Graph with 4% Increases with Catch-Up over 5 Yrs - £'000s



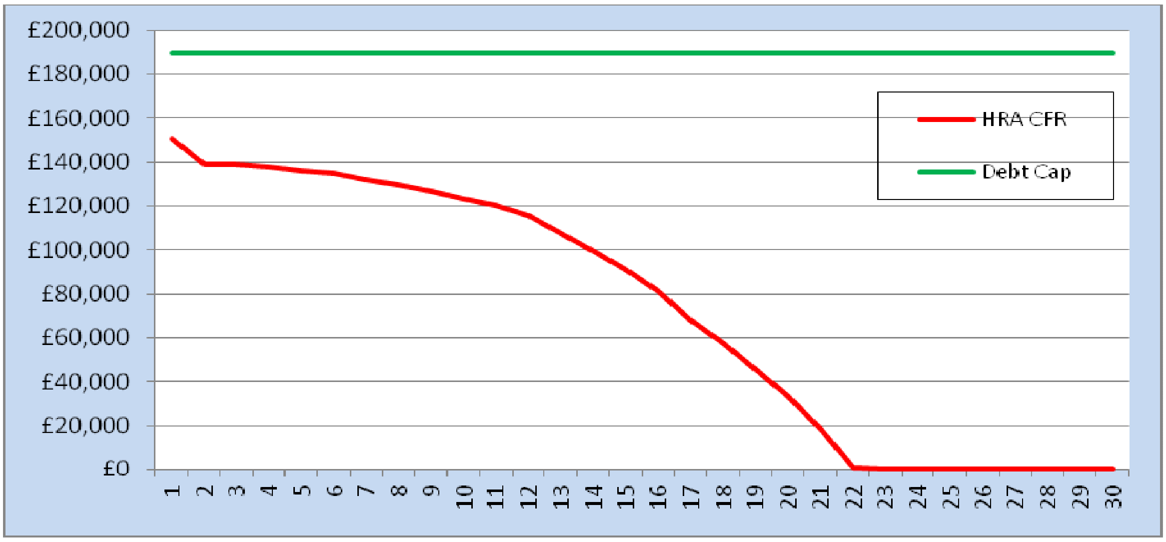
7.15 If rent increases of 4% were applied in April the following 5 years rent increases would average at 4.85%, based on an RPI of 2.5%, in order to catch up and converge with formula rent in April 2017. Following this course would extend debt repayment by one year. In addition we forecast that the HRA would lose revenue in this period of £5.1million and pay an additional £0.9million in interest.

Chart 7.7 Initial Debt Graph with 4% Increases with 3% Formula Increase - £'000s



7.16 If this scenario was applied the average rent in April 2012 would be £84.49 against a 3% inflated formula rent of £89.79, instead of £92.49 with the full 6.1% increase. This would extend debt repayment to year 22. The following year's increases would average 5.0%, based on 2.5% RPI up to April 2015. We estimate that over a ten year period this would result in a loss of £10.8million in revenue and £2.9million in additional interest.

Chart 7.8 Initial Debt Graph with no 0.5% addition to RPI - £'000s



7.17 If rent increases are 0.5% per annum less than expected within the debt settlement calculation and rent restructuring guidance, the plan does remain viable, compared to the base plan position, though potential debt repayment is extended to year 22. We would estimate that in a ten-year period £9.7million in revenue would be lost in addition to extra interest charges of £1.7million.

7.18 A combination of 1) and 3) would result in debt repayment being extended to year 23 when compared to the basic plan and when 2) and 3) applied year 25.

7.19 Reducing future revenue and rental streams is not advisable when moving to a self-financing business plan in which there is a considerable amount of unsubsidised debt. There is however the potential scope in future for rents to be increased to the levels assumed within the debt settlement should the plan require additional revenue. Reducing rent increases would prevent additional investment or service improvements to the existing stock.

8. Mixed analysis of business plan capacity

8.1 The table below details the impact to the business plan when a mixture of the above options is applied by analysing the extension to the period of potential debt repayment and the additional borrowing required.

8.2 Again we have assumed no additional borrowing and therefore not utilising any of the borrowing headroom. In addition we have modelled no slippage of capital works to existing properties and therefore this prevents many of the options to be combined. For example applying a lower rent increase and extending convergence results in the ability to fund service improvement and new build with delaying capital works to existing properties.

Table 8.1 Mix of Options to Test the Capacity of the Business Plan

New Build	Service Enhancements From Year 2	Add. Service Enhancements From Year 10	Rent Reduction	Potential Debt Repaid
Base	-	-	-	Yr 19
With grant	£1.4m p.a.	£3.9m p.a.	-	Yr 30
With grant	£0.5m p.a.	£4.75m p.a.	1) 4% Inc	Yr 29
With grant	£0.5m p.a.	£4.0m p.a.	2) 4%/3% Inc	Yr 30
With grant	£0.9m p.a.	£1.75m p.a.	3) No 0.5% Inc	Yr 30
With grant	£0.25m p.a.	£2.5m p.a.	Comb 1) & 3)	Yr 30
With grant	£0	£1.75m p.a.	Comb 2) & 3)	Yr 30
W/o grant – Social R	£0.8m p.a.	£3.85m p.a.	-	Yr 30
W/o grant – Social R	£0.1m p.a.	£4.75m p.a.	1) 4% Inc	Yr 30
W/o grant – Social R	£0	£3.5m p.a.	2) 4%/3% Inc	Yr 29
W/o grant – Social R	£0.15m p.a.	£2.0m p.a.	3) No 0.5% Inc	Yr 30
W/o grant – Social R	£0	£1.8m p.a.	Comb 1) & 3)	Yr 30
W/o grant – Social R	£0	£1.2m p.a.	Comb 2) & 3)	Yr 30
W/o grant – Afford R	£1.0m p.a.	£4.3m p.a.	-	Yr 30
W/o grant – Afford R	£0.3m p.a.	£4.9m p.a.	1) 4% Inc	Yr 29
W/o grant – Afford R	£0.1m p.a.	£4.2m p.a.	2) 4%/3% Inc	Yr 29
W/o grant – Afford R	£0.45m p.a.	£2.3m p.a.	3) No 0.5% Inc	Yr 30
W/o grant – Afford R	£0	£2.6m p.a.	Comb 1) & 3)	Yr 30
W/o grant – Afford R	£0	£1.6m p.a.	Comb 2) & 3)	Yr 30

8.3 The table presents a position where debt repayment is extended to and near as possible to 30 years. To enable this we have had to model additional service expenditure from year 10, generally when the plan can support it following the completion of the new build programme. For example, in year 10 of the plan, using the first scenario the plan has a total of £4.75million of additional expenditure for service improvement, with inflation applied within the model.

8.4 As we have demonstrated, the capacity of the plan with no additional borrowing the Council is not utilising its headroom of £39.3million. The table below demonstrates using just a couple of scenarios from above what could be delivered earlier in the plan by allowing some additional borrowing.

Table 8.2 Mix of Options to Test the Capacity of the Business Plan With Borrowing

New Build	Service Enhancements From Year 2	Additional Borrowing Over £150.5m	Potential Debt Repaid	Additional Expenditure Provided
W/o grant – Afford R	£4.0m p.a.	£33.5m	Yr 30	£4.0m
W/o grant – Social R	£3.5m p.a.	£30.8m	Yr 30	£4.0m
With grant	£4.2m p.a.	£30.4m	Yr 30	£4.0m

8.5 Whilst the overall additional expenditure, at today's prices, only amounts to £4million in each scenario, the Council and tenants benefit from the extra resources being spent earlier. There is no negative effect on the potential repayment term even though additional borrowing is required.

8.6 We have undertaking some further modelling on the following assumptions of:

- Modern Investment Standard
- New build at affordable rent with support
- With rents converging to formula rent but as described below:

Table 8.3 Effects of Discounted Rent Increases

April 2012 Rent Increase	Rent Increases To Convergence Above RPI	Service Enhance-ments From Year 2	Plus Service Enhance-ments From Yr 10	Additional Borrowing Over £150.5m	Potential Debt Repaid
5% - Converge April 2015	**2.70%**	**£1.0m**	**£4.5m**	**-**	**Yr 30**
6% - Converge April 2015	**2.68%**	**£1.1m**	**£4.6m**	**-**	**Yr 30**
7% - Converge April 2015	**2.61%**	**£1.2m**	**£4.6m**	**-**	**Yr 30**
5% - Converge April 2015	**2.70%**	**£4.1m**	**-**	**£33.0m**	**Yr 30**
6% - Converge April 2015	**2.68%**	**£4.2m**	**-**	**£32.9m**	**Yr 30**
7% - Converge April 2015	**2.61%**	**£4.2m**	**-**	**£31.3m**	**Yr 30**
5% - Converge April 2017	**2.16%**	**£0.8m**	**£4.8m**	**-**	**Yr 30**
6% - Converge April 2017	**1.96%**	**£0.9m**	**£4.7m**	**-**	**Yr 30**
7% - Converge April 2017	**1.76%**	**£1.0m**	**£4.7m**	**-**	**Yr 30**
5% - Converge April 2017	**2.16%**	**£4.0m**	**-**	**£33.5m**	**Yr 30**
6% - Converge April 2017	**1.96%**	**£4.1m**	**-**	**£33.9m**	**Yr 30**
7% - Converge April 2017	**1.76%**	**£4.1m**	**-**	**£32.6m**	**Yr 30**

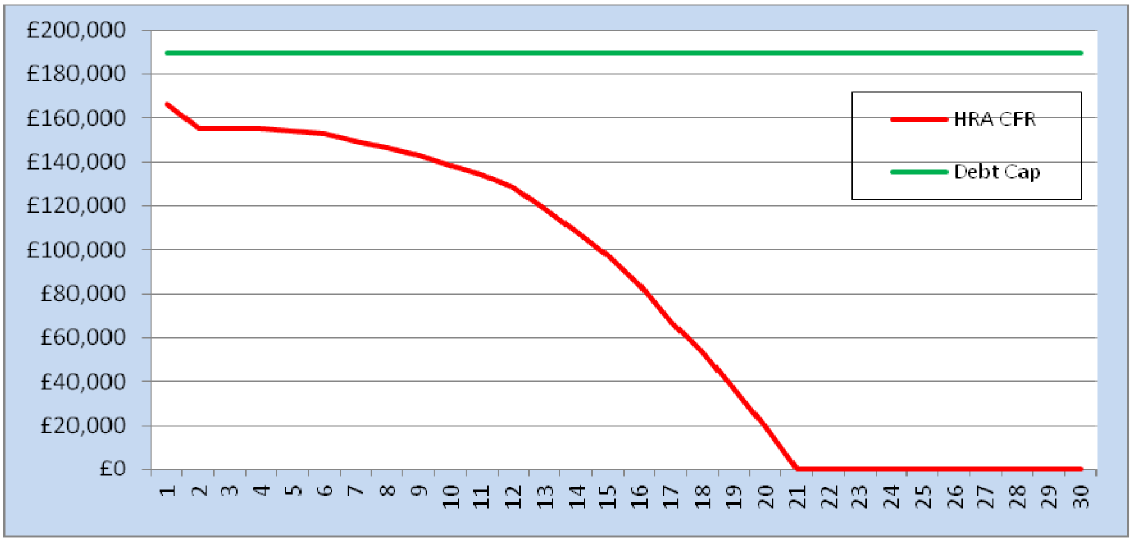
9. Potential issues for the base plan

9.1 Whilst the base plan shows a comfortably viable position with capacity to consider alternative options we have identified the following potential factors that could affect the future viability.

Debt Settlement

9.2 The original consultation for self-financing published by the previous Government in March 2010, identified a potential debt settlement figure but took into account the Subsidy Capital Financing Requirement (the notional assessment of the Council's HRA debt position) if this were negative, whilst this has been ignored in the new current Government's proposals. If this were reinstated as part of the final debt settlement then the estimated HRA debt take on of £150.486million could be increased to £166.492million. The graph below shows that the potential debt repayment could extend to year 21.

Chart 9.1 Initial Debt Graph with negative subsidy CFR adjustment- £'000s



General Fund impact

9.3 Epping Forest's current financing position could present a problem to the General Fund with the introduction of self-financing as the debt means the Council loses its debt free status.

9.4 Whilst this has no impact on the HRA, it was originally proposed by the Government that the General Fund would have to make a Minimum Revenue Provision (MRP) of 4% of its CFR balance. However this issue has been resolved now through the most recent publications from CLG and CIPFA with councils in Epping Forest's position receiving an exemption from this requirement.

9.5 Another issue for the General Fund is that it currently internally borrows from the HRA, thus benefiting from a reduced interest charge. With the HRA moving into a position of debt, the General Fund will be required to finance its own CFR of £38.5million.

9.6 The Council's treasury advisors, Arlingclose, have assessed this position and have identified that the Council can offset the General Fund CFR using existing balances and reserves under new guidance from CIPFA by separating the debt into dedicated pools.

9.7 A potential option if the General Fund is unable to fully fund its CFR from reserves and balances following self-financing could be that the HRA continues to internally fund the General Fund at the expense of the HRA.

9.8 An argument could be made that the General Fund should not be adversely affected by the introduction of self financing and whilst the HRA is technically worse-off from an increased interest charge an argument could also be made that the non-adjustment to the debt settlement detailed in 9.2 offsets most of the effect of this.

9.9 Further investigation is required to see if this course of action is possible but we have demonstrated that the HRA has capacity within the business plan for increased expenditure. It is difficult to fully quantify the effect on the HRA without advice from the Council's treasury advisers.

10. Summary

10.1 The projections contained in this report demonstrate that the HRA self financing business plan is viable under a range of circumstances.

10.2 However the projections are on the basis of an indicative debt settlement that will change. In addition, the interest rates and basis of funding the transaction are also very much subject to change. The treasury strategy is still to be laid out as is the budget for next financial year.

10.3 The potential for over-funding the HRA does require further investigation and if this route is required, it must take priority over any other additional spend commitments.

10.4 The new build calculations are based on assumed levels and will be subject to refinement if the Council works up plans for actual schemes in detail.

10.5 The model has assumed no real growth on management or maintenance costs (other than through the stock investment discussed) - efficiency savings would be required to offset any unpredicted growth.

11. Issues for Consideration for the Council

11.1 As we have previously stated this is very much an options report for the HRA Financial Plan and we would suggest the following be considered before the plan is developed further:

- Consider/confirm that expenditure on stock investment should be increased to a proper maintenance standard, instead of the current minimum Decent Homes Standard
- The associated additional staffing requirement to deliver an increased maintenance programme
- Whether the Council wants to consider provision within the Financial Plan for new build, improvements/service enhancements and/or lower rent increase and, if so, how much for each option
- If provision is made for improvements/service enhancements, separate consideration at a later date on the options available
- If lower rent reductions are proposed, consideration of whether these should commence from April 2012, since the Council will shortly be preparing its 2012/13 HRA Budget
- Consider if the option of overfunding, if required, for the HRA to assist the General Fund should be explored and, if so, the explorative approach to be taken

Simon Smith

October 2011