HRA Business Plan Update and Options Paper

Simon Smith

Director – CIH Financial Consultancy

History of Rent Regime

- Under rent convergence:
  - Convergence to Formula Rent by 2015 – Self-Financing
  - RPI+0.5%+'negligible' (cap of £2)
  - April 2017 adopted by Epping Forest due to gaps/affordability
- Then:
  - RPI + 0.5% to CPI + 1% from 2015/16 (for ten years)
  - End of rent convergence (but new tenancies to formula)
  - Loss of estimated £1.2bn (30 years Nationally)
- Now (Welfare Reform & Work Bill):
  - -1% Rent Reduction for 4 years (then CPI plus 1%) all tenures except S/O
  - Impact National £2.53bn (4 Years) £42.7bn (30 Years)
  - Impact Epping Forest £13.9m (4 Years) £225.8m (30 Years)
  - Why? To make savings of £4.28bn on Housing Benefit
- New tenancies to Formula Rents?
  - Section 5 of Paper – being considered (not modelled / Treasury Approval)

Main Factors within Existing Plan

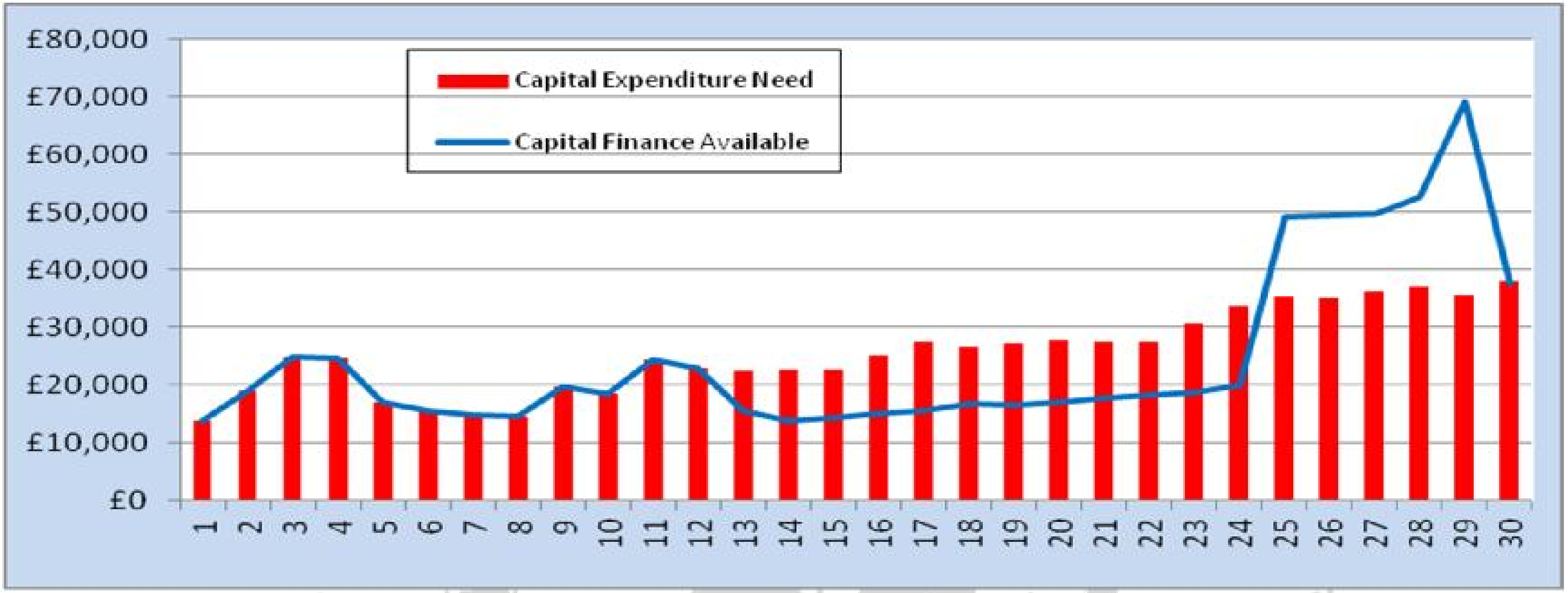
Loan Portfolio

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

Service Enhancements

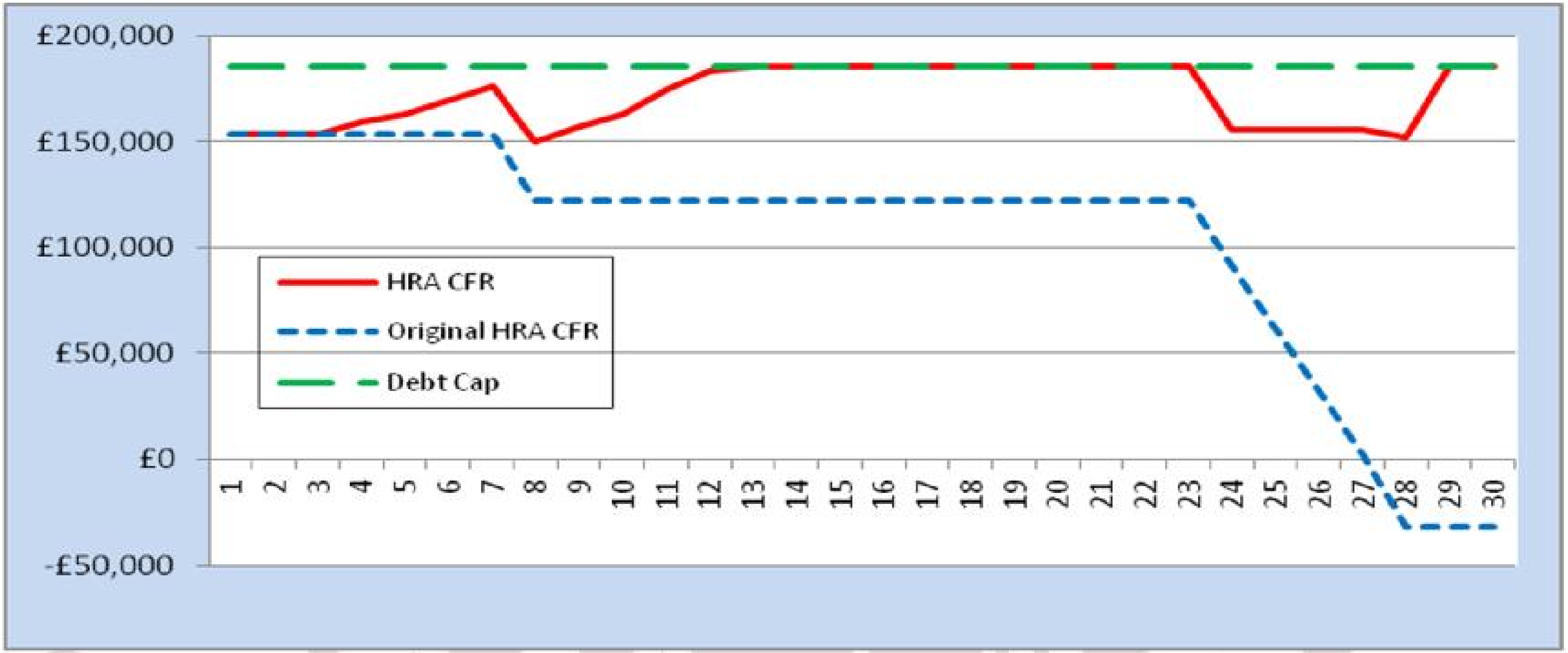
Ongoing Service Enhancments	In addition to £570k Revenue Provision
April 2015 - 4 Years	£370,000
April 2019 - 3 Years	£560,000
April 2022 - 2 Years	£4,950,000
April 2024 - 5 Years	£7,200,000
April 2029 - 5 Years	£8,900,000
April 2034 - 11 Years	£8,700,000
TOTAL	£180,560,000

Impact to the Business Plan 1



- Based on March 2015 Plan with amendments to new build spend profile, opening balances and capital receipts
- Continuing contribution to Self-Financing Reserve to repay loan portfolio

Impact to the Business Plan 2

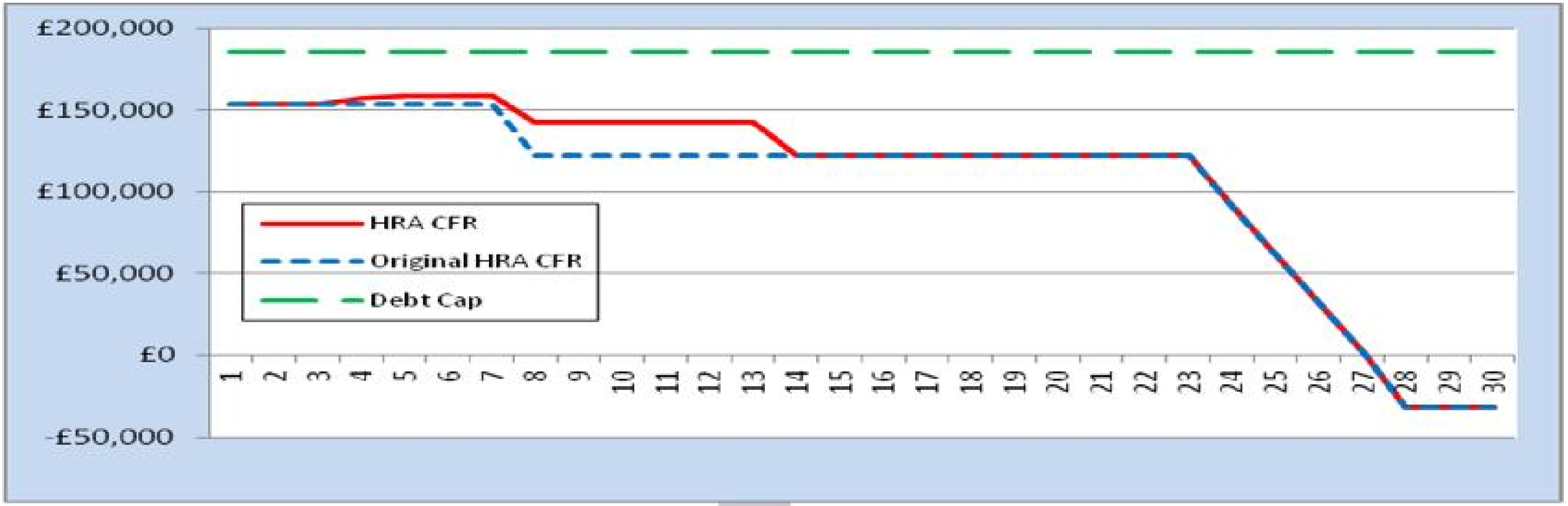


- Based on keeping HRA at £2m minimum balance and Self-Financing Reserve Repaying existing loan portfolio

Options Considered

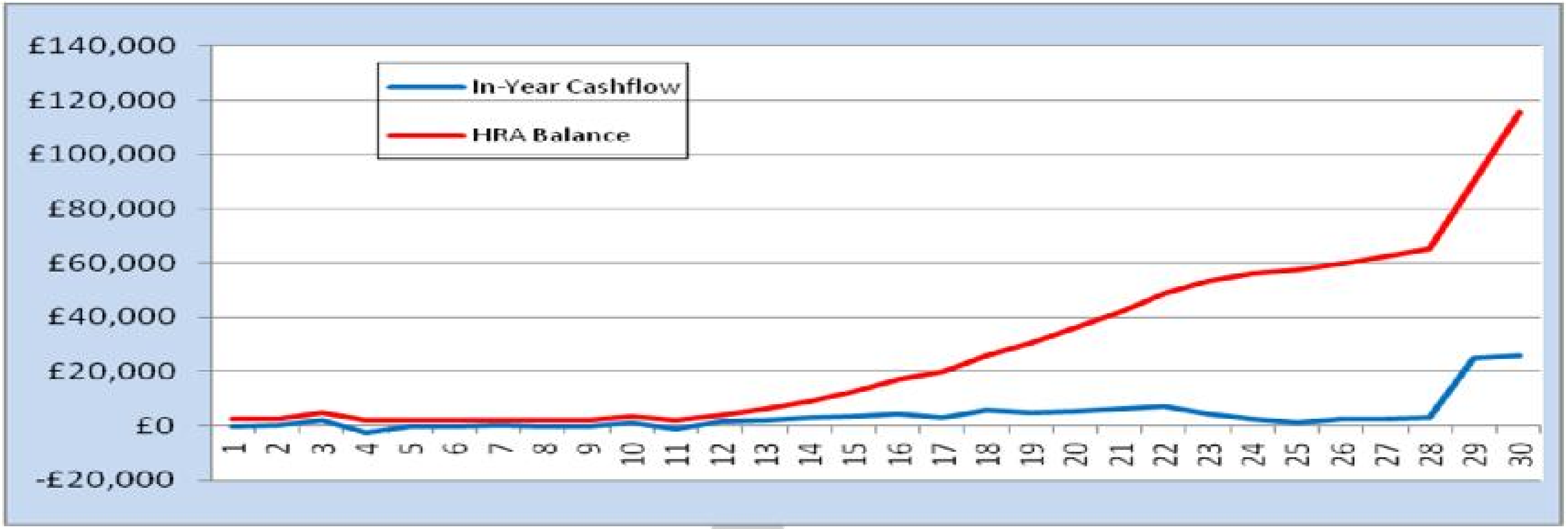
- Key Aim: To repay the Loan Portfolio as it matures and maximise the use of the right to buy ‘1-4-1’ reserve (April 2015 £4.56million)
  1. Complete Withdrawal of ALL Service Enhancements
  2. Service Enhancements Affordable with no borrowing
  3. £1m Minimum per annum Service Enhancements
  4. Reduce Levels of New Build in Phases 3 to 6
  5. Full New Build Programme with no borrowing at expense of reducing Capital Investment on Existing Stock

1. No Service Enhancements



- Even by reducing ALL service enhancements a total of £20.837million (allowing for the repayment of the £31.8million loan) of additional borrowing is required – which could be repaid by year 14 and provides for Phases 1 to 6 of New Build
- The early borrowing could be re-profiled slightly with the Self-Financing Reserve but would not affect the overall position

1. No Service Enhancements



- This graph shows that after year 14 (2027.28) HRA balances would increase (after making sufficient contributions to the Self-Financing Reserve) that could be used for future service enhancements

2. Affordable Levels of Service Enhancements

- As demonstrated in Option 1 – £20.837million needs to be borrowed with ALL Service Enhancements removed
- Key Factor – the £31.8million loan repayment in year 7
- Option 5 considers the scenario for reducing capital expenditure to finance this option without the need to borrow

2. Affordable Levels of Service Enhancements

Ongoing Service Enhancements	2015.16 Business Plan (Pre-rent adjustment)*1,2	2015.16 Business Plan Option 2 (Post-rent adjustment)*1,3
April 2015 (1 year)	£370,000	£370,000
April 2016 (3 years)	£370,000	£-
April 2019 (3 years)	£560,000	£-
April 2022 (2 years)	£4,950,000	£-
April 2024 (1 year)	£7,200,000	£-
April 2025 (4 years)	£7,200,000	£1,300,000
April 2029 (5 years)	£8,900,000	£3,100,000
April 2034 (8 years)	£8,700,000	£1,450,000
April 2042 (3 years)	£8,700,000	£10,000,000
Total over 30 Years	**£180,560,000**	**£52,670,000**
Inclusive of Inflation	**£284,537,000**	**£89,998,000**

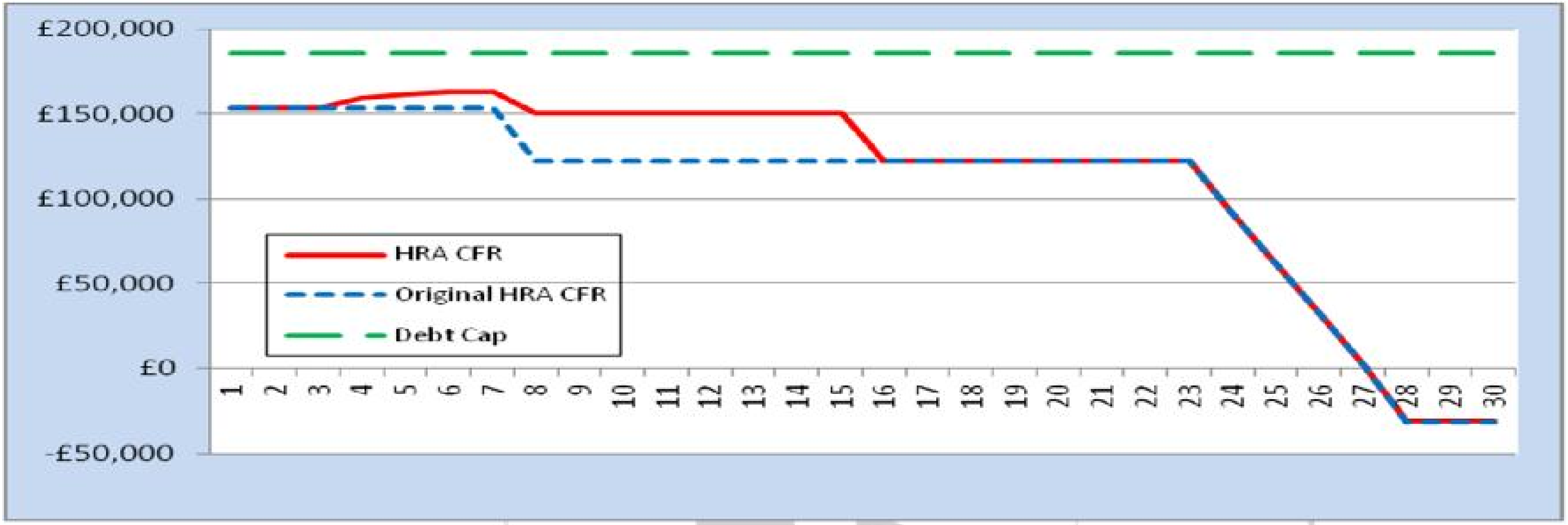
- Pre-Rent Plan has £570k of Service Enhancements within existing management budgets
- Option 2: Excludes the £570k in Management Budgets
- Costs Exclude Inflation

3. £1m Service Enhancements

Ongoing Service Enhancements	2015.16 Business Plan (Pre-rent adjustment)*1,2	2015.16 Business Plan Option 3 (Post-rent adjustment)*1,3
April 2015 (1 year)	£370,000	£370,000
April 2016 (3 years)	£560,000	£1,000,000
April 2019 (3 years)	£4,950,000	£1,000,000
April 2022 (4 years)	£7,200,000	£1,000,000
April 2025 (4 years)	£8,900,000	£2,000,000
April 2029 (5 years)	£8,700,000	£3,000,000
April 2034 (8 years)	£8,700,000	£-
April 2042 (2 years)	£370,000	£11,500,000
Total over 30 Years	**£180,560,000**	**£55,370,000**
Inclusive of Inflation	**£284,537,000**	**£88,845,000**

- This shows the minimum of £1m enhancements from next year – then what the plan can afford

3. £1m Service Enhancements



- A total £28.466million of new borrowing is required to finance the £1m per annum service enhancements – repayable by year 16 (2029.30)
- Borrowing Capacity of £22million remains

4. Reduce New Build Expenditure

- In order to avoid any additional borrowing only phase 1 of the new build programme could be delivered (23 out of 215 homes)
  - HCA grant returned £0.5million
  - £7.329million of potential '1-4-1' receipts returned
  - £1.034million interest on the receipts payable by HRA
- This is based with ALL service enhancements removed from year 3

5. Reduce Capital Expenditure

Year	Reduction Required to Capital Programme	% of Original Programme
4 - 2017.18	£3.606m	32%
5 - 2018.19	£3.813m	33%
6 - 2019.20	£3.978m	32%
7 - 2020.21	£3.991m	31%
8 - 2021.22	£4.036m	32%
TOTAL	**£19.424m**	**32%**

- Allows for Phases 1-6 new build programme
- Enables £31.8million loan repayment in year 7
- Less than £20.8million borrowing in Option 1 on account of no interest payable

Sale of High Value Voids

- To fund discounts for Right to Buys for Housing Association Tenants
- Uncertain how its going to be implemented (Though Housing Bill)
- Localised Levels Set?
  - 1 Bed: £155,000+ 2 Bed: £220,000+
  - 3 Bed: £265,000+ 4 Bed: £440,000+ 5+ Bed: £635,000
- How will the contribution to Brownfield funds work?
- Will authorities keep an element of ‘allowable’ debt?
- How much can an authority then retain before any receipt handed to fund HA right to buy sales?
- Who pays for admin such as Estate Agent Fees?
- What about loss of rental whilst conveyance is carried out?
- Securing the property?

Pay to Stay

- £30,000 out of London, £40,000 in London
  - Expect sliding scale of 80% to 100% of market rent
- Will push through Right to Buys
- Savills Research (35% of income on housing):
  - 60% in London will not be able to afford market or right to buy
  - 49% East, 43% South East & 27% South West
  - 14% North East
  - “Tax payer subsidy of £3,500 per year on average”

Commentary 1

	Add Borrowing	New Homes	10 Years -Serv Enchancements	Comments
1. No Service Enhancements	£20.837m Repay Yr 14	215	-	
2. Affordable Service Enhancements	£20.837m Repay Yr14	215	£1.3m	
3. £1m Min Service Enhancements	£28.466m Repay Yr16	215	£10m	
4. Reduced New Build	-	23	-	Return of Grant £0.5m, Receipts of £7.4m, Interest £1m
5.Reduce Capital Investment	-	215	-	Reduce Investment by 32%

- Option3 Suggested as best Option

Commentary 2

- Main issue loan portfolio based on:
  - Rent inflation that has now been changed- twice, Existing tenants to formula/convergence lost
  - Higher Levels of Right to Buy – no full benefit
- Backdrop that if you don't build:
  - Return to Government of Receipts/Grant plus Interest on Balances
- Need to be prepared for future impact of:
  - High Value Voids, Pay to Stay
  - Welfare Reform
- Therefore Decisions Not Essential Now:
  - How the above policies may affect the plan
  - Given that borrowing not needed for 2 Years+
- Any New Build beyond Phase 6 will require Borrowing in any event