**CLACKMANNANSHIRE COUNCIL**

**THIS PAPER RELATES TO ITEM 16**

**ON THE AGENDA**

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| **Report to:** | **Council** |
| **Date of Meeting:** | **27th June 2013** |
| **Subject:** | **Housing Revenue Account (HRA) Financial Business Planning Model for Clackmannanshire Council Housing 2013 - 2018** |
| **Report by:** | **Head of Community and Regulatory Services** |

## 1.0 Purpose

1.1. This report presents to Council the Housing Revenue Account (HRA) Financial Business Planning Model and outline assumptions for the period 2013 - 2018. The primary purpose of the Financial Business Plan is to ensure the Council can manage its HRA assets by ensuring their longer term management and maintenance is sustained in accordance with the Council's approved financial strategies.

## 2.0 Recommendations

2.1. It is recommended that Council:

(a) approve the finalised Housing Revenue Account Financial Business Planning Model including the assumptions contained within the model (3.6.3);

(b) instruct the Head of Housing and Community Safety to submit an annual statement to Council which highlights progress in delivering against the main assumptions contained within the model and for this to be the focus of the annual rent consultation process with tenants;

(c) instruct the Head of Housing and Community Safety to carry out a review of HRA Assets (non housing stock) to establish those which are currently providing a positive financial return to the HRA and those which do not;

(d) note that a review is currently being carried out into Clackmannanshire Council's rent structure;

(e) note that following approval of the outline assumptions, a Business Plan document setting out the assumptions and priorities contained within the model, will be prepared and shared with tenants, customers and partners.

## 3.0 Considerations

3.1. Background

The HRA Financial Business Plan, which has a major significance in setting the HRA operational day to day expenditure as well as the capital investment budget, has been under review. Aligned with the consultation on the Clackmannanshire Council Housing Strategy (CHS), tenant priorities for the Council's landlord service were consulted on during May and June 2012. The review of the HRA financial Business Plan 2013/18 follows approval at Council on 20th December 2012 of the new Clackmannanshire Housing Strategy 2012-17, which also established core strategic housing priorities and a renewed vision for the area.

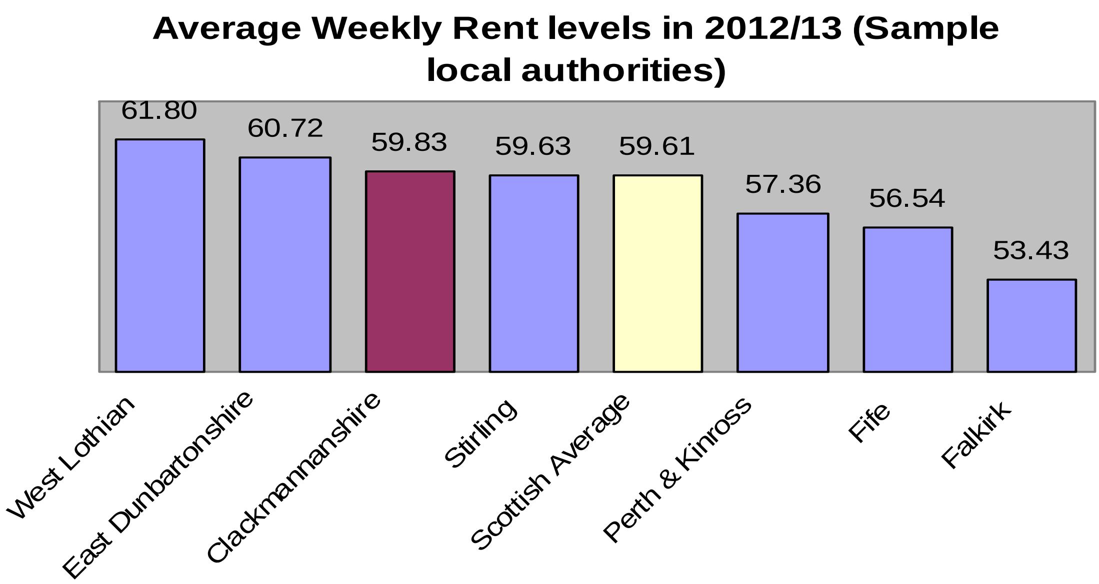
3.2. The current Business Plan 2008-2013

3.2.1. Following tenant consultation, the Business Plan 2008-13 was approved by Council in January 2009. This confirmed the investment priorities that our tenants wanted, which were:

- All our stock to meet the Scottish Housing Quality Standard (SHQS) by 2015. All properties should be compliant with the basic Tolerable Standard, free from serious disrepair, energy efficient, fitted with modern facilities and services, healthy, safe and secure;
- Deliver the Clackmannanshire Standard - To include higher quality 'Secure by Design' front doors and higher quality kitchen and bathroom standards as part of the replacement programme;
- The Housing Revenue Account to retain £3m as a working reserve balance.

3.2.2. The current plan approved by Council in 2009 agreed rent increases of RPI inflation + 2% until 2015, and then RPI inflation + 1% for the remainder of the plan period (2038).

3.2.3. Currently, our rent charges are in line with the Scottish average:



3.3. Achievements

The Council has made around £40 million of capital investment in the last 5 years to improve the standard and availability of council housing. As a landlord we have delivered the following:

- SHQS - 92.3% of our housing stock now meets this national standard, which is currently the highest in Scotland for local authority landlords;
- Customer Service Excellence standard;
- Reduction of rent arrears which are now under the Scottish average;
- Re-letting times which are substantially quicker placing us among the top performers (and improvers) for reducing void rent loss;
- The Scottish Housing Regulator's appraisal of our Improvement plan confirmed that there was 'evidence of improved performance and outcomes for service users' and that 'the Housing service has maintained its recent good progress';
- The Clackmannanshire Standard - the kitchen and front door replacement programme is now complete;
- The bathroom programme is due to complete in 2016;
- In the last year 1,111 houses received full new central heating systems with "A" rated energy efficient combi boilers;
- Gas networks provided to areas previously off the gas grid - areas such as Craigview, Branshill Park in Sauchie, Carseview in Tullibody, and areas of Tillicoultry;
- New build Council houses in Alva and Tullibody are due for let from April 2013.

3.4. Purpose of review

3.4.1. As reported at the Special Council meeting in February 2013 the HRA Financial Business Plan was undergoing review, with a view to developing a new financial model. This review was necessary, as not only had the end of the last Business Plan period been reached, but significant changes to the local and national housing landscape had to be considered. This also provided an opportunity to re-assess rent levels and borrowing required to support the ongoing investment in the stock.

3.4.2. In February the Special Council approved that the finalised HRA financial Business Plan model 2013 - 2018 would be presented to Council on 27th June 2013. As part of the review, the Housing, Health and Care Committee agreed the current position of the review on the 23rd May 2013 and briefings on the model for elected members were held on the 3rd and 24th of June 2013.

3.4.3. The main influencing factor in the Business Plan is the stock investment decisions and, during 2010 and 2011 a major stock condition survey was carried out by the council. This survey on the internal and external condition of our properties looked at 21% of our stock comprising over 1,000 homes. This was a proportionate sample against our actual build types, giving a fair and representative indication of the current condition of the stock, as well as the work and investment required to ensure that it continues to meet the standards set by the Council in support of our tenants' expectations.

3.4.4. The stock condition survey found that our houses and flats are in a 'reasonably good condition' and have benefited from a 'proactive maintenance regime'. However the consultants were insistent that, owing to the ages of some building components (namely roof coverings), sustained investment will be required to ensure that the stock continues to be kept in a good condition. The stock condition survey is further complemented with additional 500 property condition surveys which are carried out each year by the Housing Asset Officer to ensure a proactive maintenance regime, to reduce pressure on the reactive repairs budget, and to identify work required to properties in order for them to meet SHQS.

3.4.5. The condition survey also indicated the significant investment required in mixed tenure situations, which means that considerable match funding from owners and private landlords is required in order to maintain those assets. It estimated that some £12m of owners contributions (at today's prices) will be required to supplement the work of the Council in blocks, otherwise the investment required to maintain these assets in a lettable condition could be at risk. In addition, if owners don't participate in upcoming programmes this will present a challenge to the Council in obtaining and maintaining full compliance with the SHQS standard. Processes to meet this challenge are being developed, utilising relevant legislation in accordance with the Council approved Private Sector Housing Assistance Scheme, where appropriate.

3.5. Tenant Consultation and the view of the Tenants Federation

3.5.1. To assist council tenants in making an informed choice on the Business Plan model and rent levels, the Tenants Federation commissioned an independent financial report. This was carried out by the Tenants Information Service (TIS) and is available at Appendix A.

3.5.2. The consultation on the Business Plan model and associated rent levels was made available on Clacksweb on 20th March 2013. This included background information for tenants on rent levels, associated investment cycles that tenants could expect, and the review carried out into the financial modelling by the Tenants Information Service. This was in line with the approach taken to consult on the budget setting process for the General Fund during December 2012 and January 2013. Tenants had the opportunity to take part in an online survey which closed on 15th April 2013.

3.5.3. The approach to marketing the consultation incorporated a number of mediums to ensure as wide a coverage of publicity as possible. Following the launch of the consultation on Clacksweb, the Alloa Advertiser published a press release on 25th March 2013. This was followed up by a number of Facebook and Twitter messages encouraging tenants to complete the survey. This was further complemented by highlighting the consultation to our register of interested individuals, tenants and resident groups and raised awareness via community councils. The "Help Shape Housing in Clackmannanshire" event was held in Alloa Town Hall on Saturday 13th April 2013, with housing staff available to answer questions on the plan and allow tenants to take part in the consultation. This event was also advertised on Clacksweb, social media, local press and local radio mentioning specifically that the consultation would be available at the event and on Clacksweb for those unable to attend.

3.5.4. The Tenants Federation praised the Council for fully utilising all available methods to encourage tenant participation in our consultations which is line with the Charter. The Federation are encouraged that this process of engagement will continue in line with the Charter.

3.5.5. The main points of note from the consultation are:

- Respondents feel that the rent charged by the council is affordable and good value for money and agree with the rent proposals;
- 81% of respondents agree that we should review current charges for different sizes of properties, 50% agree that we should charge higher rent for new build properties;
- Bulky uplifts and garden aid services will continue to be provided and the costs charged to the HRA to be funded through rent charges;
- Disturbance allowances for the kitchen and bathroom programmes will cease on the completion of the current bathroom replacement programme, payments will continue for tenants who have re-wiring completed and full central heating replacements;
- There is strong support for building new socially rented housing;
- Respondents agree that the council is doing enough to ensure properties are energy efficient.

3.5.6. A key action for the Council will be to review the rent differentials in line with the consultation of the 2014-15 HRA budget proposals. The action to review was included within the approved Housing and Community Safety Service Business Plan 2013-14. The conclusion to the review, along with recommendations, will be presented to Council along with the Housing Revenue budget for 2014-15. Any proposed changes to the Council's rent structure must fit within the context of the level of income proposed in the model (Appendix B).

3.5.7. The Tenants Federation as the umbrella group for all local tenant and resident groups, have commented separately on the proposals. Their comments are detailed in the independent reports commissioned by the Federation (Appendix A - Tenants Information Service Report - A Brief Analysis of the Latest Housing Revenue Account, March 2013) and the update report produced in April 2013. The report identifies a number of specific issues, namely a concern about below inflation increases for management and maintenance costs, and new build development costs.

3.5.8. The concern over inflation was addressed by Council Officers at the HRA Board, including mitigation activity and a commitment to an updated annual report. As the activity to purchase off-the-shelf properties is in the early stages further analysis of costs will have to be carried out to verify baseline figures. We are satisfied that this will be carried out as part of the Council's first annual review in 2014/15.

3.5.9. The Federation in the longer term has concerns over appropriate debt levels and external borrowing, and would like this to be kept under review. Finally, the Federation would like to see the Council consider a headline cap on rent increases, notwithstanding the rent proposals made in the report.

3.6. Proposed HRA Financial Model 2013 - 2018

3.6.1. The Scottish Housing Regulator (SHR) will be seeking a demonstration from the Council in our Annual Return on the Charter (ARC) that discussions have taken place with our customers to ensure that decisions made generally reflect the views expressed by tenants and the community. Therefore, when developing the HRA financial model, the Council had to ensure that adequate consideration was given to the views expressed by tenants during the initial consultation. This required the Council to explore the balance of delivering tenant priorities, expanding into new build development and keeping rents affordable whilst maintaining prudence in terms of borrowing. The TIS Independent Finance Review states in accordance with that balancing act that "the model submitted to us shows a positive position going forward with reasonable levels of rent increases, an active Capital programme with new build and affordable levels of debt."

3.6.2. This further illustrates that, should the Council seek further expansion into new build, either rent levels or borrowing would need to increase beyond the key assumptions proposed in this report. It should be noted that although the report by TIS states that they are "impressed with the HRA model submitted to us and in terms of presentation is one of the best we have come across for simplicity and ease of understanding" they do raise concerns relating to some of the model assumptions and these concerns are addressed in the remainder of the report. However, it should be noted that following TIS carrying out a financial sensitivity analysis for interest rate rises and inclusion of full inflation they conclude "the plan is still (just) affordable." This again highlights the pressure that could be placed upon increases to rents beyond what tenants find palatable to fund further investment or require a review of the borrowing position.

3.6.3. The table below details the outline assumptions made in the planning model. Appendix B details the summary cash flow throughout the planning period 2013 - 2018 and the impact over the next thirty years. This details that in the first two years £12.5m of Capital investment will be funded through our working reserve and current revenue. The indicative capital programme that will be delivered through this planning period is presented at Appendix C.

| Category | Assumption |
|---|---|
| Inflation | September 2012 (RPI) rate of 3% used. |
| Rent Increases | RPI+1% for 2014/15, RPI+0.75% for 2015/16, RPI+0.5% for 2016/17 then RPI thereafter for the remaining period (2017/18 onwards). |
| Capital Programme | As indicative budget (Special Council, February 2013) then Increased by RPI from year 7 onwards (2019/20). |
| Repairs and Maintenance and Other Expenses | 2014/15 inflated in line with RPI then half RPI ongoing. |
| Supervision and Management | Based on 3 year budgets to 2015/16 then half RPI thereafter. |
| Working Reserve Balance as % of Rental Income | No lower than 4% using CIPFA guidance. |
| New Socially Rented Housing | 605 over 30 years (assumes continuing Government grant support). |
| Borrowing | In line with the treasury management strategy, borrowing to remain relatively flat and not to exceed £35m. |

3.6.4. The planning model has been developed in-house and will enable the Council to review how we are progressing in delivering against the model assumptions. It will also provide a mechanism for the Housing, Health and Care Committee to proactively monitor the HRA budget and decisions relating to Service priorities to be made within the context of the 30 year model. The model will also enable the Council to produce necessary reports required by the Scottish Housing Regulator in relation to the Social Housing Charter.

3.6.5. The model demonstrates that our borrowing will be highest in year 4 (2016/17) of the plan where the Council will need to borrow £3.5m to fund that years capital programme. The Council's HRA total outstanding borrowing will peak in year 9 (2021/22) when the total amount due by the HRA will reach £34.8m. This will be within our borrowing constraint of £35m in accordance with the Councils approved financial strategies.

3.7. Proposed rent increases 2013 -2018

3.7.1. Over the last decade, most council landlords in Scotland have increased rents at above inflation. This has occurred for a variety of reasons some common and some individual. In line with the Charter, costs and rent increases that are not transparent as to their purpose or benefit will come under increased scrutiny from tenants when they are required to pay higher real rent levels.

3.7.2. As a Council we need to ensure the rent remains affordable for our tenants and we have received comments through the consultation that we are perhaps reaching the limit in terms of affordability. In addition, we also had to be mindful of the effect of Welfare Reform and the possible inflationary restrictions that could be placed on Housing Benefit awards to social landlord tenants in the future. Therefore, our proposal to increase rent at a lesser rate than the current plan took account of these external pressures, whilst still delivering on tenant priorities within the context of the Council's approved financial strategies.

3.7.3. The following table shows the average rent level for Clackmannanshire Council tenants based on the current plan until 2017/18 compared with the new proposed plan. This assumes RPI inflation will be 3% (as at September 2012). The proposed plan will still require above inflation increases for the first few years (3.6.3), however by year 5 it assumes rent increases will be restricted to inflation. The table demonstrates that, by the end of the plan period, tenants will be paying around £2 a week less than if the current Business Planning model rent proposals continued.

Average rent increases 2013 - 2018

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| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|
| Avg Rent (£) - Current Plan | 67.79 | 71.18 | 74.03 | 76.99 | 80.07 |
| Avg Rent (£) - Proposed Plan | 67.79 | 70.50 | 73.15 | 75.71 | 77.98 |
| Saving (£) | 0.00 | 0.68 | 0.88 | 1.28 | 2.09 |

3.7.4. The Scottish Government is currently seeking views on their Guidance on the Operation of Local Authority Housing Revenue Accounts (HRAs) in Scotland. The aim of this guidance is to ensure that HRA expenditure provides maximum benefit for Council tenants and there is sufficient transparency to allow proper scrutiny of the HRA by tenants and their representative groups. A key principle is ensuring that HRA assets should principally benefit HRA tenants either in direct usage or as investments providing a financial return. The guidance is also concerned with Council tenants not solely funding work such as general estate maintenance where owner occupiers or tenants of other landlords benefit from this work. The Council is therefore required to review HRA assets to establish which ones are providing a positive financial return. This may result in some assets being transferred out of the HRA account. This scope and resource requirement for this review will be included in the Housing and Community Safety Service plan for 2014/15 following completion of the Government Guidance.

3.8. <u>Capital Programme 2013 - 2018</u>

3.8.1. The outline priorities for investment for the next 5 years, including anticipated costings, were agreed by Special Council in February 2013 (Appendix C). These priorities include provision for the completion of the bathroom programme by 2016, and a window replacement programme which is due to start next year. Key items included in the capital programme in the next planning period 2013 - 18 include:

- 452 replacement roofs & 1,300 wall upgrades (render)
- 2,300 new central heating systems
- 100 new doors
- 598 properties fitted with new windows
- 200 new kitchens
- 3,000 replacement bathrooms
- 80 door entry systems

3.8.2. The TIS report raises concerns about the application of inflation in the early years of the capital programme. However, a number of contracts have already been placed for suppliers with fixed prices for delivery. The last Business Planning period heavily benefited from substantial external grant funding and similar opportunities will be explored during the course of the next planning period to maximise this type of investment in stock. The Council has a robust investment replacement cycle for key elements, including, roofs, re-wiring and central heating installations (Appendix D). However, items will not be replaced items unless they reach the end of their useful life.

3.8.3. A slight risk to the Business Plan assumptions in terms of borrowing is the finalised contract prices for central heating systems and the roof and render programme. The first annual review will reflect upon this and propose any changes required to the planning model. Progression of the roof and render programme will rely on owner contributions (3.4.5) and this could cause delays due to negotiation and dialogue with owner occupiers.

3.9. Repairs & Maintenance

3.9.1. The bulk of the maintenance service is delivered by the internal direct labour organisation (Property Contracts Unit). Clackmannanshire Council repairs costs measured on an average property basis are below the Scottish average for other local authority landlords. The most recent data available for the average cost of repairs per property is from 2011/12, when the Scottish average was £1,064 against the Clackmannanshire average of £863.

3.9.2. To further support the current competitive cost position the internal delivery of the repairs and maintenance services for council tenants has undergone a significant change. As part of the initial phase of IT developments to help provide efficient and effective services to tenants, Facilities Management has expanded the use of the Servitor system to be the corporate repairs system. The expansion of this system will facilitate a more efficient works scheduling system which allow the ability to offer tenants appointment slots for some repairs. The introduction of this system, aligned with significant investment in stock, is anticipated to bring about reductions in costs.

3.9.3. The new approach to managing repairs aims to reduce costs by increasing the number of jobs carried out by each tradesman. Placing a restriction on costs only to rise by half the rate of RPI will deliver the efficiency benefit. In addition, as reported to Council in March, pay inflation is assumed to be maintained at 1% across the period until 2017/18. This will also place downward pressure on the Repairs & Maintenance and Supervision & Management budget allowances.

3.10. Supervision & Management

3.10.1. Supervision & Management budget for 2013/14 is likely to place us below the Scottish Government estimated cost per house for local authority landlords.

3.10.2. Previously, the assumption had been that stock levels would reduce through Right to Buy sales and planned demolitions and the housing management role would diminish in line with this. This reduction in stock and management requirement has not come to fruition. In contrast, the requirements of the Housing Service have changed so that a greater focus is now on the support of tenants and the management of tenancies.

3.10.3. To ensure that the HRA is able to fund the resources required to deliver on these priorities and outcomes, the Supervision & Management budget has been set to increase for the next 3 years in line with the required budgeted salary increases and then by half of RPI thereafter. This includes mitigation activities around welfare reform, within current budget levels.

3.10.4. The TIS report questions whether this inflation amount is achievable. The Council anticipates further savings as the service embraces new ways of working with the centralisation of staff and improved use of technology as part of the corporate move to Kilncraigs. Some of the new methods of working will be delivered through the development and introduction of a new Housing Business Management IT System (HBMS). This change programme was discussed as part of the HRA budget challenge process. The Directors Group are currently collating the outcomes of each of the budget challenge sessions with Services to identify opportunities to work with the corporate business transformation team. For the HRA it is expected that this will involve a review of processes, eliminate waste, ensure resource delivery maintains focus on front line activity and so delivery of the savings achieved will offset any additional inflationary pressure.

3.11. Use of working reserve balances to support investment

3.11.1. The last Business Plan had as a key requirement, the need to ensure the long term viability of the HRA and Capital account with a minimum working reserve balance of £3m. Part of the review of the model has been to investigate the use of the £3m working reserve. In the last plan the purpose of this working reserve was to help smooth out the borrowing pattern with the required capital investment. It provided a cushion against unexpected events such as severe winter damage and challenges to the HRA's cash flow. It could be argued that this had the affect of keeping rents higher than they may necessarily have been.

3.11.2. For the next Business Planning period, in order to help maintain the balance of rent increases, borrowing and investment, it is proposed that the level of working reserve balance is reduced to 4% of rental income. This means that in 2014/15, the operating working reserve will be £689k. This will be slightly above the Council's approved Finance Strategy for the General Fund which is to retain uncommitted non HRA working reserves of a minimum of 3% of net expenditure. The working reserve is in line with CIPFA (Chartered Institute of Public Finance) guidance which recommends HRA working reserves of 4% of net expenditure. Setting the working reserve based on income rather than expenditure will be prudent given the considered challenges of Welfare Reform and the introduction of Universal Credit. The impact of these national policies will be monitored throughout the Business Plan period by the Corporate Welfare Reform Working Group.

3.12. New socially rented housing

3.12.1. The Scottish Government approved Clackmannanshire Housing Need and Demand Assessment (HNDA) which shows that we need more homes to meet the future growing population and smaller homes. The research from the HNDA also shows that we need to provide an additional 5,724 properties to meet local demand in Clackmannanshire over the next 10 years. Of this total, 3,220 should be available for social rent. To support this the plan includes budget to buy or build approximately 20 new properties a year for the next 30 years. The Strategic Housing Investment Programme (SHIP) details other initiatives that are being explored, to increase supply. This includes the National Housing Trust funded development, the Council's backed mortgage scheme to support first time buyers, and bringing back empty homes into use. The need for affordable housing will continue to be greater than overall supply during the course of the Clackmannanshire Strategy 2012-17 and the Local Development Plan (LDP). Therefore, the backlog of households in housing need in Clackmannanshire is likely to continue to rise as a result of the requirements not being met.

3.12.2. The investment in new build is based on the continuation of the receipt of grant funding from the Scottish Government's Affordable Housing Supply Programme, and the availability of suitable Council owned land at zero / low cost. The General Fund's contribution to housing supply would be the release of this land for development.

3.13. Financial Plan Model monitoring

3.13.1. In order to progress the Business Plan review and ensure that tenants are suitably involved in decision making, the HRA Board was formed in June 2012. The Board has been scheduled to meet quarterly throughout 2013/14 in alignment with the Housing, Health and Care Committee to ensure that tenants are integral to our approach of budget and resource monitoring. Rent reviews will be carried out in line with the corporate approach of involving the public in reviewing budget savings and ensuring that our collective community engagement can be maximised.

3.13.2. As well as the quarterly HRA Board meetings an annual review will be carried out by the Housing and Community Safety Service to ensure that budgets remain in line with the plan. The reviews will be reported to Committee and Council as part of the budget review.

3.13.3. Following approval of the outline assumptions, a Business Plan document setting out assumptions and priorities contained within the model, will be prepared and shared with tenants, customers and partners.

3.14. Risks to the Financial Model

3.14.1. The Scottish Social Charter outcome 13 requires landlords to ensure value for money while increasing the quality of services. It will therefore be important throughout the Business Planning period to ensure that key budget areas such as Repairs & Maintenance and Supervision & Management costs are monitored, and any variances clearly documented. In terms of Repairs & Maintenance this monitoring will allow for any lessons learned to be incorporated into the capital investment programme.

3.14.2. Some key risks that the HRA Board and Council will have to monitor throughout the Business Plan period are as follows:

- Required rent increases not being fully implemented
- The impact of welfare reform on cash flow
- Demands on resources as a result of housing legislation
- Supervision and management / repairs costs increasing beyond the scope of the plan due to inflationary pressures and/or efficiencies not being realised
- Receiving appropriate contributions in mixed tenure blocks for common improvement works, in line with title conditions.

## 4.0 Sustainability Implications

4.1. The sustainability implications of this report are comprehensively positive in terms of community participation, the local economy, energy efficiency, the environment, asset management and human resources.

## 5.0 Resource Implications

5.1. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes ☑

5.2. Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☑

**6.0 Exempt Reports**

6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below)
No ☑

**7.0 Declarations**

**The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.**

(1) **Our Priorities** (Please double click on the check box☑)

| | |
|---|---|
| The area has a positive image and attracts people and businesses | ☑ |
| Our communities are more cohesive and inclusive | ☑ |
| People are better skilled, trained and ready for learning and employment | ☐ |
| Our communities are safer | ☑ |
| Vulnerable people and families are supported | ☑ |
| Substance misuse and its effects are reduced | ☐ |
| Health is improving and health inequalities are reducing | ☑ |
| The environment is protected and enhanced for all | ☑ |
| The Council is effective, efficient and recognised for excellence | ☑ |

(2) **Council Policies** (Please detail)

**8.0 Equalities Impact**

8.1. Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☑ No ☐

8.2. All Council tenants and Housing Service users paying rent and receiving services will be affected by the housing financial Business Plan. The Capital Programme investment including the elemental life cycle elemental replacements will affect all council tenants with the planned investment in housing stock. The commitment to build and or buy additional social housing stock will benefit individuals seeking social housing in Clackmannanshire.

**9.0 Legality**

9.1. It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☑

## 10.0 Appendices

10.1. Appendix A - Tenants' Information Service Report - A Brief Analysis of the Latest Housing Revenue Account, March 2013

10.2. Appendix B - Financial Business Plan Model for Clackmannanshire Council Housing 2013 - 2018, Summary Cash Flow

10.3. Appendix C - Indicative Housing Capital Programme 2013 - 2018

10.4. Appendix D - Capital Programme Investment Cycle

## 11.0 Background Papers

11.1. Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered).
Yes ☑ (please list the documents below) No ☐

11.2. The Business Plan for Clackmannanshire Council Housing 2008/13 (January 2009)

11.3. Housing Revenue Budget 2013/14 and Capital Programme 2013/14 (February 2013)

11.4. Clackmannanshire Council Stock Condition Survey of Domestic Assets, Michael Dyson Associates Ltd (July 2011)

11.5. Housing Services Financial Business Plan survey results April 2013

11.6. Tenants' Information Service Report - Clackmannanshire Council HRA Board Paper review April 2013

11.7. Consultative draft guidance on the operation of Local Authority Housing Revenue Accounts (HRA's) in Scotland

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**Approved by**

| NAME | DESIGNATION | SIGNATURE |
|---|---|---|
| Stephen Crawford | Head of Facilities Management | Signed: S Crawford |
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# Clackmannanshire Council – HRA Review

*A Brief Analysis of the Latest Housing Revenue Account*

## March 2013

**A Review for TIS by**


FINANCIALEDGE

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## Contents



TENANTS INFORMATION SERVICE

FINANCIALEDGE

## Overview

1. Work was carried out looking at the latest Housing Revenue Account (HRA) issued by the council on 21 February 2013.

2. Our analysis involved firstly checking the robustness and integrity of the model supplied by the council (making sure their sums add up) and secondly ensuring the assumptions concerning rent increases and the capital programme were affordable with acceptable levels of debt.

3. Finally, we also carried out sensitivity analysis which means we applied alternative levels of inflation and cost increases to establish areas where the planned approach could be vulnerable to changes in future economic conditions.

## 1. Robustness and Integrity of the Model

1.1 The council supplied a summary HRA model and provided a more detailed budget that allowed us to reconcile the 2013/14 opening balances. Following this, we were able to check the soundness of the model. We concluded that all the various figures linked correctly etc.

1.2 We only discovered a couple of small errors on the model concerning the calculation of principal repayments leading to a small change in outstanding loan balances, However, this is not significant and actually shows an improved position. For example, the closing loan balance at the end of year 30 should be £5.698M (or £1,037 per unit) rather than £6,477 shown (£1,179 per unit).

1.3 We have some issues around the use of cost inflation and new build/Off the shelf stock numbers and costs. This will be addressed in the next section.

1.4 To summarise, the model submitted to us (before our analysis) shows a positive position going forward with reasonable levels of rent increase, an active capital programme with new build and affordable levels of debt.

1.5 Our own comments and calculations on the model are shown at Appendix A (in red). This also includes related information concerning the project.

1.6 In conclusion though, we were impressed with the HRA model submitted to us and in terms of presentation is one of the best we have come across for simplicity and ease of understanding.

## 2. Soundness of Assumptions

2.1 A number of direct opening balances are used for initial years in the model and we secured an additional (more detailed) file to help us reconcile these figures. The council were very helpful in assisting us with this.

2.2 The council rely on a number of assumptions. These are shown in the table below.

| **Category** | **Assumption** |
|---|---|
| Inflation | September 2012 rate of 3% used (RPI) |
| Rent Increases | RPI+1% for 2014/15, RPI+0.75% for 2015/16, RPI+0.5% for 2016/17 then RPI thereafter for the remaining period (2017/18 onwards). |
| Capital Programme | Increased by RPI from year 7 onwards (2019/20) |
| Repairs and Maintenance and Other Expenses | 2014/15 inflated in line with RPI then 1.5% ongoing |
| Supervision and Management | Based on 3 year budgets to 2015/16 then 1.5% thereafter (2016/17 onwards). |
| Reserves as % of rental income | No lower than 4% using CIPFA guidance |
| New Housing | 605 units shown as being available over 30 years |
| Borrowing (council figures) | Peak borrowing of £34.830M (£6,866 per unit) in year 9 (2021/22). Borrowing at the end of year 30 (2042/43) is £6.477M (£1,179 per unit). Full repayment takes place in year 42. |

2.3 On the face of it, this is a good plan with sound financing leaving the option open for even higher levels of new build. However, while we are happy with the way the plan is constructed and what it is trying to achieve, we have some concerns over the realism of increases below the rate of inflation for some key costs.

2.4 We have taken each of the assumptions above and subjected them to a brief analysis.

## Inflation

2.5 Inflation is based on the RPI rate at September 2012 of 3%. However, as this is in effect a cash flow plan, a number of years in some of the categories show a rate of cost increase below the rate of inflation. This has helped to produce a sound set of financial figures with the ability to deliver a substantial capital programme with new build. We are unsure how realistic these assumptions are over the longer-term. This will be explored in more detail by category below and in the sensitivity testing section.

## Rent Increases

2.6 The level of rent increases shown in the table appears reasonable and certainly below increases we have seen in other councils. Increases of only RPI from 2017/18 onwards will be particularly welcomed by tenants.

## Capital Programme

2.7 The programme is a full one and includes provision for new build throughout the 30 year period of the plan. However, we have some concerns over the absence of any inflation in the first 6 years of the programme and some discrepancies between the number of new build units to be built/acquired and their costs (this will be examined in more detail in the New Housing section below).

2.8 Costs are apparently shown without any inflation in the first 6 years until year 7 (2019/20) when they are inflated each year at RPI (3%). We would normally expect all costs to be inflated from year 1. This means in the first 6 years (provided they have not been inflated separately and then directly entered by the council) costs are at today’s prices and effectively reduce in real terms over the first 6 years of the plan.

2.9 The costs for year 7 onwards also are only inflated at 3% on the non-inflated value at year 6. Normally, we would expect the full cumulative effect of inflation to be provided for.

## Repairs and Maintenance and other Expenses

2.10 Costs are inflated at 3% for 2014/15 and then only increase by 1.5% (1.5% below the rate of inflation) for year 2015/16 onwards.

2.11 This assumes real terms cuts each year to the budget which does not seem realistic over the longer-term. The council should explain their reasoning for this approach.

**Supervision and Management**

2.12 Costs for the first 3 years of the plan are entered directly from the 3 year budget so we assume they have been inflated at 3% for the period to 31 March 2016 (it certainly looks this way). From 2016/17 onwards, all costs are inflated at only 1.5% (1.5% below the rate of inflation). Again, this represents a year on year cut of 1.5% to the budget in real terms.

2.13 While in the current economic climate this may seem reasonable (and it looks like public sector cuts will be here for the foreseeable future) we are not sure how realistic this will be over the longer-term. We recommend the council revisit this assumption or explain their reasoning.

**Reserves as a % of Rental Income**

2.14 The Chartered Institute of Public Finance and Accountancy (the main accountancy body for the public services) issue bulletins on a regular basis outlining Local Authority accounting guidance.

2.15 The council have used specific guidance in this area to set a minimum level of reserves (reserves as a % of rental income) of no less than 4% each year. We consider this a prudent operating level.

2.16 Reserves actually increase beyond the 4% benchmark from year 15 onwards (2027/28).

**New Housing**

2.17 The plan provides for new council housing over 30 years (605 units in total with a total cash investment of £100,725 per unit).

2.18 We applaud the council's ambitions with regard to investment in new housing. The supply of new affordable housing by RSLs is set to reduce in future years so using its ability to encourage regeneration and further investment is a laudable strategic objective.

2.19 We do however have some issues in trying to reconcile the overall spend in the early years of the plan with the investment being made. For example, the capital programme shows an investment in new build housing of £1.25M per year but house numbers in the first 3 years do not appear to tie up with this expenditure.

2.20 In year 1 the council intend to construct or buy off the shelf 61 units, in year 2 61 and in year 3 units. No additional units are planned for years 4, 5 and 6 despite investment being shown. Moreover, even if we allow for the total new housing investment in years 1 to 6 of £7.75M, the costs to build/acquire the new units are only in the region of £62k per unit which seems on the low side. Work we are carrying out for another Scottish Council suggests the cost of building new social housing could be as high as £133k per unit although we accept some keenly priced tenders are being received at present also.

2.21 The council should explain their reasoning on this in more detail as future years' development costs also appear to be on the low side (even allowing for inflation - where provided).

**Borrowing**

2.22 Borrowing is perfectly affordable in the plan submitted by the council (although there is a small error in the calculations as mentioned previously). The borrowing can de described as "flat" which means no sharp increases or decreases over the life of the plan.

2.23 Borrowing reaches a peak of £6,866 per unit in year 9 (2021/22) then is gradually repaid each year only leaving a residual debt balance of £1,179 per unit at the end of the 30 year period. The residual balance is eventually repaid in year 44 (2057/58).

**Overall View on the Council's Assumptions**

2.24 We have two concerns with the plan.

2.25 Inflation is an issue as we would question the realism of below inflation increases over a 30 year period for management and maintenance costs. The council is able to maintain a comprehensive capital program at affordable rent and debt levels only by initiating real terms cuts to these costs for a substantial number of years. Our sensitivity testing in the next section will focus on inflating these costs at the quoted RPI of 3% to test the robustness of the plan to absorb such a change.

2.26 Also, no inflation is shown for capital costs in the first 6 years. Again, we would question the validity of this although the council may be banking on maintaining prices through lower tenders during this period. While we can see the logic of this in such a poor economic climate, this point should still be raised with council officials.

2.27 Secondly, we cannot quite tie up the new build stock numbers with the investment being made – especially in the early years. In addition, development costs for new build stock and off the shelf purchases look on the low side although we recognise some highly competitive tenders are being achieved in the current environment. Again, this subject should be raised with council staff.

## 3. Sensitivity Analysis

### Areas of Sensitivity in the Plan

3.1 The council did not carry out any sensitivity analysis on the model presumably knowing this work would be carried out by FinancialEdge for TIS.

3.2 We have limited our sensitivity analysis to inflation and interest rates in the plan as the rental increases proposed appear on the reasonable side (but see 3.3 below) and also we need further clarification on the costs of new build housing – this will need to come from the council before we carry out sensitivity testing in this area.

3.3 The treatment of inflation is the major “talking point” of this plan and hence we have concentrated on this area to establish if the application of full inflation causes the plan to be unaffordable or only affordable with rent increases in excess of RPI for later years.

### Interest Rates

3.4 The Council are able to access very competitive long-term financing for the HRA. This means a long term rate of 4.05% for new borrowing. We have tested the sensitivity of new borrowing on the plan by using slightly higher interest rates of 4.5% and 5%. We have not used rates higher than this because it is a fairly safe assumption the council will continue to be able to access competitive long term financing (certainly far more competitive than is available in the private sector).

3.5 We are not able to test increases on existing CDC housing borrowing so we are assuming - as this is existing debt subject to longer-term repayment profiles - current rates of interest rates on this borrowing will remain fairly stable throughout the repayment period.

3.6 Using a rate of 4.5%, there is little sensitivity for new borrowing. Peak borrowing reaches £33.436M in year 9 (adjusted for the small error in the original calculations) and debt at the end of year 30 is £6.03M. This compares with the corrected debt at year 30 of £5.698M.

3.7 Using the slightly higher rate of 5%, again there is little sensitivity. Peak borrowing reaches £33.595M in year 9 (adjusted for the small error in the original calculations) and debt at the end of year 30 is £6.360M. This compares with the corrected debt at year 30 of £5.698M.

3.8 Based on these figures, for new borrowing, we conclude that the plan is robust in terms of new interest rates.

**Inflation**

3.9 We have approached this from three angles. Firstly, we tested the affordability of the plan using 3% RPI for all years for management and maintenance costs but left the capital program as it is (no inflation for the first 6 years).

3.10 Secondly, we have applied 3% RPI to management and maintenance costs as well as the first 5 years of the capital program.

3.11 Thirdly we have applied 3% RPI to management and maintenance costs, the first 5 years of the capital program and applied full cumulative inflation on the capital program from year 6 onwards.

3.12 The results from the 3 scenarios compared to the original (debt corrected) position is as follows.

| Category | Existing (debt corrected) HRA | M & M (3%) | M & M (3%) + Capital (5 years at 3%) | M & M (3%) + Capital (full inflation of 3% - cumulative from year 6 onwards) |
|---|---|---|---|---|
| Cumulative Surplus (year 30) | 83.358M | 2.108M | 1.748M | 1.748M |
| Peak debt (total) | £33.297M | £47.264M | £51.879M | £116.209M |
| Peak debt (per unit) | £6,866 | £8,829 | £9,692 | £21,117 |
| Peak debt year | 2021/22 (year 9) | 2035/36 (year 23) | 2035/36 (year 23) | 2043/44 (year 31) |
| Debt at year 30 (total) | £5.698M | £38.724M | £44.757M | £113.228M |
| Debt at year 30 (per unit) | £1,037 | £7,050 | £8,148 | £20,613 |
| Full loan repayment year | 2057/58 (year 44) | 2072/73 (year 59) | 2073/74 (year 60) | 2073/74 (year 60) |

**Overall View on the Sensitivity of the Plan**

3.13 At a push, the plan could withstand like for like inflation increases throughout for management and maintenance costs and the first 5 years of the capital programme (all at 3%). While debt per unit and repayment periods are increased, it is probably (just) on the right side of affordability. Nevertheless, any additional business plan risks that materialised may have to be mitigated by above inflation rent increases at some point. Additionally, if there is an aversion politically to the higher levels of debt and the significantly longer repayment periods then the plan may be deemed unaffordable in any case. If applicable, rent increases above the rate of inflation are inevitable.

3.14 Financing costs to income would still be below 20% throughout although the revised borrowing schedule would need to be tested against overall council prudential borrowing limits for an ultimate check on affordability.

3.15 The plan does become unaffordable if year 6 capital costs are adjusted for cumulative inflation as they form the base for subsequent inflation increases throughout the 30 year period. Financing costs to income are in excess of 20% from year 12 onwards and cumulative and unit debt levels are clearly unacceptable. The only way such an arrangement could "stack-up" is if rent increases above the rate of inflation were implemented for the whole (or part) of the period of 2017/18 onwards.

## 4. Conclusions

4.1 The council must be congratulated on producing an easy to follow and well constructed HRA model. There are a couple of small errors in the financing sections that have been corrected by us. This results in an improved financial position (lower debt than originally shown).

4.2 While we are happy with the opening balances of the plan and its robustness and integrity as an operational document, we have some concerns over the treatment of inflation. We do not believe the use of a 1.5% increase rate for management and maintenance cost is realistic as this represents a year on year cut in real terms (using a base RPI of 3%).

4.3 Similarly, no inflation is shown for capital costs in the first 5 years of the plan or cumulative inflation for year 6 onwards.

4.4 The council will need to clarify their thinking with new build costs and related stock numbers as we have some difficulty making sense of the timing of costs and the delivery of new units in the early years of the plan.

4.5 We undertook sensitivity testing of the plan for interest rates rises and the inclusion of full inflation. We can conclude the plan is still (just) affordable if full 3% inflation is restored for management and maintenance costs as well as the first 5 years of the capital plan, although it will be more vulnerable to other risks and the loan repayment period is a lot longer. However, if there is no appetite for this politically, then there may be no option but for rent increases above the rate of inflation to be applied in later years.

4.6 We do not believe it is affordable if capital costs from year 6 onwards are subjected to cumulative inflation from year 1. This may not be a major problem though as the council is still investing £8.3M at today's prices from year 6 onwards and while its value then will be lower, the resultant spend should still be sizeable enough to make a difference to council tenants in Clackmannanshire.

4.7 We suggest tenants, in particular, should discuss the treatment of inflation by the council and listen to their views on the approach they have taken. They need to hear evidence that management and maintenance costs are realistic and that the planned capital programme as well as new council housing can indeed be delivered without the need for "RPI plus" rent increases from year 5 onwards.

## Appendix B - Financial Business Plan Model 2013-2018 Summary Cash Flow

| **Summary Cashflow** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013/14** | **2014/15** | **2015/16** | **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** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **HOUSING REVENUE ACCOUNT** | | | | | | | | | | | | | | | | | | |
| Repairs & Maintenance | 4,625 | 4,764 | 4,835 | 4,908 | 4,981 | 5,056 | 5,132 | 5,209 | 5,287 | 5,366 | 5,447 | 5,529 | 5,611 | 5,696 | 5,781 | 5,868 | 5,956 | 6,045 |
| Supervision & Management | 3,641 | 3,672 | 3,757 | 3,814 | 3,871 | 3,929 | 3,988 | 4,048 | 4,108 | 4,170 | 4,232 | 4,296 | 4,360 | 4,426 | 4,492 | 4,560 | 4,628 | 4,697 |
| Capital Financing Costs | 3,059 | 3,163 | 3,191 | 3,238 | 3,331 | 3,179 | 3,219 | 3,323 | 3,418 | 3,502 | 3,573 | 3,629 | 3,670 | 3,694 | 3,697 | 3,698 | 3,700 | 3,701 |
| Other Expenses | 1,078 | 1,249 | 1,267 | 1,286 | 1,306 | 1,325 | 1,345 | 1,365 | 1,386 | 1,407 | 1,428 | 1,449 | 1,471 | 1,493 | 1,515 | 1,538 | 1,561 | 1,584 |
| **Total Expenditure** | **12,403** | **12,848** | **13,051** | **13,245** | **13,488** | **13,489** | **13,683** | **13,945** | **14,199** | **14,444** | **14,680** | **14,903** | **15,113** | **15,308** | **15,486** | **15,664** | **15,844** | **16,028** |
| **Income** | (16,610) | (17,397) | (18,067) | (18,676) | (19,234) | (19,808) | (20,440) | (21,134) | (21,851) | (22,592) | (23,357) | (24,149) | (24,967) | (25,813) | (26,686) | (27,595) | (28,542) | (29,527) |
| **Net / Surplus for year** | **(4,207)** | **(4,549)** | **(5,017)** | **(5,431)** | **(5,746)** | **(6,319)** | **(6,757)** | **(7,189)** | **(7,651)** | **(8,147)** | **(8,678)** | **(9,246)** | **(9,854)** | **(10,505)** | **(11,201)** | **(11,932)** | **(12,697)** | **(13,499)** |
| Net / Surplus from Previous Year | (4,495) | (3,000) | (689) | (717) | (741) | (764) | (787) | (812) | (839) | (868) | (898) | (928) | (960) | (992) | (1,026) | (1,397) | (2,174) | (3,383) |
| Contribution to Capital Account | 5,702 | 6,860 | 4,989 | 5,407 | 5,723 | 6,296 | 6,731 | 7,161 | 7,623 | 8,118 | 8,647 | 9,214 | 9,821 | 10,471 | 10,830 | 11,155 | 11,489 | 11,834 |
| **Cummulative Net / Surplus at end of Year** | **(3,000)** | **(689)** | **(717)** | **(741)** | **(764)** | **(787)** | **(812)** | **(839)** | **(868)** | **(898)** | **(928)** | **(960)** | **(992)** | **(1,026)** | **(1,397)** | **(2,174)** | **(3,383)** | **(5,048)** |
| **CAPITAL ACCOUNT** | | | | | | | | | | | | | | | | | | |
| **Total Capital Programme** | **7,877** | **8,025** | **6,487** | **8,909** | **7,015** | **8,300** | **8,549** | **8,805** | **9,070** | **9,342** | **9,622** | **9,911** | **10,208** | **10,514** | **10,830** | **11,155** | **11,489** | **11,834** |
| **Funded By:** | | | | | | | | | | | | | | | | | | |
| House Sales | (814) | (680) | (680) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Funded From Current Revenue (CFCR) | (5,702) | (6,860) | (4,989) | (5,407) | (5,723) | (6,296) | (6,731) | (7,161) | (7,623) | (8,118) | (8,647) | (9,214) | (9,821) | (10,471) | (10,830) | (11,155) | (11,489) | (11,834) |
| Borrowing Requirement | (1,361) | (485) | (818) | (3,502) | (1,292) | (2,004) | (1,818) | (1,644) | (1,447) | (1,224) | (975) | (696) | (386) | (43) | 0 | 0 | 0 | 0 |
| **Total Funding** | **(7,877)** | **(8,025)** | **(6,487)** | **(8,909)** | **(7,015)** | **(8,300)** | **(8,549)** | **(8,805)** | **(9,070)** | **(9,342)** | **(9,622)** | **(9,911)** | **(10,208)** | **(10,514)** | **(10,830)** | **(11,155)** | **(11,489)** | **(11,834)** |
| **Annual Balance** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Combined HRA & Capital A/C** | **(3,000)** | **(689)** | **(717)** | **(741)** | **(764)** | **(787)** | **(812)** | **(839)** | **(868)** | **(898)** | **(928)** | **(960)** | **(992)** | **(1,026)** | **(1,397)** | **(2,174)** | **(3,383)** | **(5,048)** |
| **Total Outstanding Borrowing** | **33,825** | **33,768** | **32,746** | **32,049** | **34,020** | **33,773** | **34,321** | **34,681** | **34,830** | **34,744** | **34,400** | **33,775** | **32,840** | **31,569** | **29,932** | **28,234** | **26,518** | **24,782** |
| **PRUDENTIAL INDICATOR** | | | | | | | | | | | | | | | | | | |
| **AFFORDABILITY - Financing Costs to Revenue Stream** | **18.61%** | **18.33%** | **17.76%** | **17.43%** | **17.41%** | **16.13%** | **15.83%** | **15.80%** | **15.72%** | **15.57%** | **15.37%** | **15.10%** | **14.76%** | **14.37%** | **13.91%** | **13.46%** | **13.02%** | **12.60%** |
| **Debt per unit** | 6.813 | 6.740 | 6.512 | 6.380 | 6.773 | 6.724 | 6.819 | 6.863 | 6.866 | 6.822 | 6.728 | 6.580 | 6.373 | 6.103 | 5.764 | 5.416 | 5.067 | 4.718 |
| **Working Balance as % rental income** | 18.2% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 5.3% | 7.9% | 11.9% | 17.2% |

20/06/2013

## Appendix B - Financial Business

| Summary Cashflow | 19<br>2031/32<br>£'000 | 20<br>2032/33<br>£'000 | 21<br>2033/34<br>£'000 | 22<br>2034/35<br>£'000 | 23<br>2035/36<br>£'000 | 24<br>2036/37<br>£'000 | 25<br>2037/38<br>£'000 | 26<br>2038/39<br>£'000 | 27<br>2039/40<br>£'000 | 28<br>2040/41<br>£'000 | 29<br>2041/42<br>£'000 | 30<br>2042/43<br>£'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **HOUSING REVENUE ACCOUNT** | | | | | | | | | | | | |
| Repairs & Maintenance | 6,136 | 6,228 | 6,321 | 6,416 | 6,512 | 6,610 | 6,709 | 6,810 | 6,912 | 7,016 | 7,121 | 7,228 |
| Supervision & Management | 4,768 | 4,839 | 4,912 | 4,986 | 5,060 | 5,136 | 5,213 | 5,291 | 5,371 | 5,451 | 5,533 | 5,616 |
| Capital Financing Costs | 3,703 | 3,704 | 3,706 | 3,276 | 2,744 | 2,665 | 2,668 | 2,481 | 2,483 | 2,276 | 2,167 | 1,781 |
| Other Expenses | 1,608 | 1,632 | 1,657 | 1,682 | 1,707 | 1,732 | 1,758 | 1,785 | 1,812 | 1,839 | 1,866 | 1,894 |
| **Total Expenditure** | **16,214** | **16,403** | **16,595** | **16,359** | **16,023** | **16,144** | **16,349** | **16,368** | **16,578** | **16,582** | **16,688** | **16,519** |
| **Income** | (30,552) | (31,620) | (32,730) | (33,886) | (35,096) | (36,364) | (37,684) | (39,057) | (40,488) | (41,975) | (43,525) | (45,138) |
| **Net / Surplus for year** | **(14,338)** | **(15,216)** | **(16,135)** | **(17,527)** | **(19,073)** | **(20,220)** | **(21,335)** | **(22,689)** | **(23,910)** | **(25,393)** | **(26,838)** | **(28,619)** |
| Net / Surplus from Previous Year | (5,048) | (7,197) | (9,859) | (13,063) | (17,271) | (22,625) | (28,715) | (35,496) | (43,195) | (51,664) | (61,153) | (71,610) |
| Contribution to Capital Account | 12,189 | 12,554 | 12,931 | 13,319 | 13,719 | 14,130 | 14,554 | 14,991 | 15,440 | 15,904 | 16,381 | 16,872 |
| **Cummulative Net / Surplus at end of Year** | **(7,197)** | **(9,859)** | **(13,063)** | **(17,271)** | **(22,625)** | **(28,715)** | **(35,496)** | **(43,195)** | **(51,664)** | **(61,153)** | **(71,610)** | **(83,358)** |
| **CAPITAL ACCOUNT** | | | | | | | | | | | | |
| **Total Capital Programme** | **12,189** | **12,554** | **12,931** | **13,319** | **13,719** | **14,130** | **14,554** | **14,991** | **15,440** | **15,904** | **16,381** | **16,872** |
| **Funded By:** | | | | | | | | | | | | |
| House Sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Funded From Current Revenue (CFCR) | (12,189) | (12,554) | (12,931) | (13,319) | (13,719) | (14,130) | (14,554) | (14,991) | (15,440) | (15,904) | (16,381) | (16,872) |
| Borrowing Requirement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Funding** | **(12,189)** | **(12,554)** | **(12,931)** | **(13,319)** | **(13,719)** | **(14,130)** | **(14,554)** | **(14,991)** | **(15,440)** | **(15,904)** | **(16,381)** | **(16,872)** |
| **Annual Balance** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Combined HRA & Capital A/C** | **(7,197)** | **(9,859)** | **(13,063)** | **(17,271)** | **(22,625)** | **(28,715)** | **(35,496)** | **(43,195)** | **(51,664)** | **(61,153)** | **(71,610)** | **(83,358)** |
| **Total Outstanding Borrowing** | **23,027** | **21,251** | **19,432** | **17,612** | **15,979** | **14,581** | **13,198** | **11,787** | **10,440** | **9,063** | **7,759** | **6,477** |
| **PRUDENTIAL INDICATOR** | | | | | | | | | | | | |
| **AFFORDABILITY - Financing Costs to Revenue Stream** | **12.19%** | **11.80%** | **11.41%** | **9.76%** | **7.91%** | **7.43%** | **7.19%** | **6.47%** | **6.26%** | **5.55%** | **5.12%** | **4.07%** |
| **Debt per unit** | 4.367 | 4.015 | 3.657 | 3.302 | 2.985 | 2.714 | 2.447 | 2.177 | 1.921 | 1.662 | 1.418 | 1.179 |
| **Working Balance as % rental income** | 23.7% | 31.4% | 40.2% | 51.5% | 65.2% | 80.0% | 95.7% | 112.6% | 130.3% | 149.2% | 169.0% | 190.3% |

## Appendix C - Indicative Housing Capital Programme 2013-2018

| | 2013/14 Requirements | 2014/15 Indicative | 2015/16 Indicative | 2016/17 Indicative | 2017/18 Indicative |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **SHQS ELEMENTS** | | | | | |
| **Primary Building Elements** | | | | | |
| Structural Works | 150 | 150 | 150 | 150 | 50 |
| **Secondary Builing Elements** | | | | | |
| Damp Proof Course and Rot Works | 50 | 50 | 50 | 50 | 50 |
| Roof/Rainwater/External Walls | 610 | 705 | 620 | 2,303 | 2,100 |
| External Doors | 80 | 50 | 10 | 78 | 80 |
| Windows | 0 | 250 | 250 | 1,819 | 1,800 |
| **Energy Efficency** | | | | | |
| Full/ Efficient Central Heating | 928 | 837 | 1,854 | 1,854 | 800 |
| **Modern Facilities & Services** | | | | | |
| Kitchen Renewal | 50 | 157 | 100 | 250 | 250 |
| Bathroom Renewal | 2,970 | 3,500 | 1,400 | 100 | 20 |
| **Health Safe & Secure** | | | | | |
| Safe Electrical Systems | 309 | 200 | 218 | 300 | 200 |
| CO Detectors | 80 | 20 | 20 | 170 | |
| External Works: Fencing, Gates Paths | 20 | 20 | 20 | 30 | 20 |
| Secure Door Entry Systems (4 year replacement project) | 150 | 201 | 100 | 60 | 20 |
| **NON SHQS ELEMENTS** | | | | | |
| Newmills & The Orchard Business Case | 500 | 0 | 0 | 0 | 0 |
| Disabled Adapation Conversions | 50 | 50 | 50 | 50 | 50 |
| External Lead Pipe Replacement | 5 | 0 | 0 | 0 | 0 |
| Demolitions | 0 | 0 | 0 | 0 | 0 |
| Feasiblity Work | 20 | 20 | 20 | 20 | 0 |
| Council House New Build | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 |
| Housing Business Management System | 250 | 210 | 0 | 0 | 0 |
| Environmental Improvements (Includes £30k for Pine Grove in 2013/14) | 125 | 125 | 125 | 125 | 125 |
| Misc Conversions & Adaptations (Includes £80k for Pine Grove in 2013/14) | 180 | 130 | 150 | 150 | 100 |
| HRA Roads & Footpaths Improvements | 100 | 100 | 100 | 150 | 100 |
| **Total (SHQS + LCS +EE From 2018)** | **7,877** | **8,025** | **6,487** | **8,909** | **7,015** |
| Estimated House Sales (per Business Plan) | **(814)** | **(680)** | **(680)** | **0** | **0** |
| Total Capital Programme | **7,063** | **7,345** | **5,807** | **8,909** | **7,015** |
| Total CFCR Investment Applied | (5,702) | (6,860) | (4,989) | (5,407) | (5,723) |
| Projected Borrowing Requirement | 1,361 | 485 | 818 | 3,502 | 1,292 |

Appendix D

Investment Cycle

The anticipated lifespan of the elements replaced as part of the current capital programme is listed in the table below. These timescales have been used to inform the proposed spend on capital investment over the life of the plan. The Capital investment strategy includes the continuation of the stock meeting the Scottish Housing Quality Standard (SQHS), Clacks Standard as well as additional energy efficiency measures.

| **Element to be replaced** | **Lifespan to be replaced (years)** |
|---|---|
| Roofs | Average 50+ years |
| Windows | 30 |
| Kitchens | 25 |
| Bathrooms | 25 |
| Doors | 25 |
| Re-wiring | 25 |
| Central Heating (Full system replacement including radiators etc) | 25+ |
| Central Heating Boilers | 12 - 15 |