
Report to: **Special Meeting of Clackmannanshire Council**

Date of Meeting: **23 February 2018**

Subject: **Housing Revenue Account
Financial Business Plan 2018 - 2023**

Report by: **Head of Housing and Community Safety**

1.0 Purpose

- 1.1. To review the Financial Business Plan for the Housing Revenue Account (HRA) and associated proposed rent increases for the period 2018 – 2023.

2.0 Recommendations

- 2.1. Members are asked to agree:
- 2.1.1. the objectives for the 2018-2023 HRA Financial Business Plan including the revised capital replacement cycles.
- 2.1.2. the proposed 2% rent increase to all HRA dwellings, lock-ups and garage sites for the financial year 2018/19.

3.0 Background

Objectives of 2013-2018 Plan

- 3.1. The HRA Financial Business Plan underpins the financial management of the Housing Service. The plan provides an estimate of the income and expenditure of the service and the capital investment required over a 30 year period. The plan is reviewed fully every 5 years, with an annual update. The 2013 – 2018 plan aimed to achieve the Scottish Housing Quality Standard (SHQS) and meet the higher “Clackmannanshire Standard” for bathroom, kitchen and external door replacements. The plan also intended to provide new Council housing stock through a combination of new build and “Off the Shelf” purchases from the open market.
- 3.2. The 2013-2018 plan met its objectives. Over 97% of properties currently achieve the SHQS standard. Refusals and a limited number of properties in mixed tenure blocks account for the numbers not yet achieving SHQS. The bathroom, kitchen and external door replacement projects have been carried out to the higher Local Clackmannanshire Standard. Over the course of the last business plan, 151 properties have been added to the housing stock. 82 of these were new build, with a further 69 Off the Shelf purchases.

Objectives of the 2018-2023 Plan

- 3.3. The 2018-2023 Plan builds on the sound base of the previous plan. The SHQS continues to be a key national measure and social landlords are required to maintain this standard. The programme will also now focus on meeting by May 2020 the new Energy Efficiency Standard for Social Housing (EESH).
- 3.4. As part of this review, the life cycle replacement timescales for capital investment have been reviewed. Appendix 1 shows the replacement timescales for the major building components. Given the higher specification of bathrooms, kitchens and external doors the life cycle replacement has been extended on each of these elements. An extensive programme of property surveys is underway, with an aim to carry out 500 per year. These are carried out to monitor the condition of the housing stock. This information will be reviewed and used to inform the future capital investment, and the replacement cycles. The proposed capital investment is set out in Appendix 2.
- 3.5. Previous survey work suggests that it may not be viable to upgrade some of the housing stock. This is generally where the house type does not lend itself to a cost-effective upgrade, or there are other issues (for example multiple ownership in a block of flats) which makes further investment undesirable. One of the scenarios modelled included a notional loss of 200 units from the housing stock, to determine whether or not the business model could withstand such a loss. The stress tests demonstrate that it can.
- 3.6. In 2016 a face to face survey was conducted with 900 tenants from a representative sample of the population. The results were very positive, 94% of respondents expressing satisfaction with the overall service received. This level of satisfaction is underpinned by the work carried out by the housing staff. The plan supports the current staffing levels and there are no major changes proposed over the plan period. The proposed revenue budget is included at Appendix 4.
- 3.7. Housing Revenue Account debt repayments impact on the ability to improve properties and services. The plan aims to reduce HRA debt over the 30-year projection period. This then allows flexibility in future years to consider other investment proposals.

4.0 Models

- 4.1. Capita Asset Services (now Link Asset Services) was commissioned to create a spreadsheet that would allow various income and expenditure assumptions to be modelled and stress tested over a thirty year period. The following scenarios were modelled:
 - 1% rent increase per year for all properties over 30 years:
 - 2% rent increase per year for all properties over 30 years:
 - 1% rent increase per year with 200 properties removed from 2019 for potential replacement.

- 2% rent increase per year with 200 properties removed from 2019 for potential replacement.
- 2% rent differential increase, with the increase applied to larger properties only over four years, with smaller property rents frozen.

Assumptions

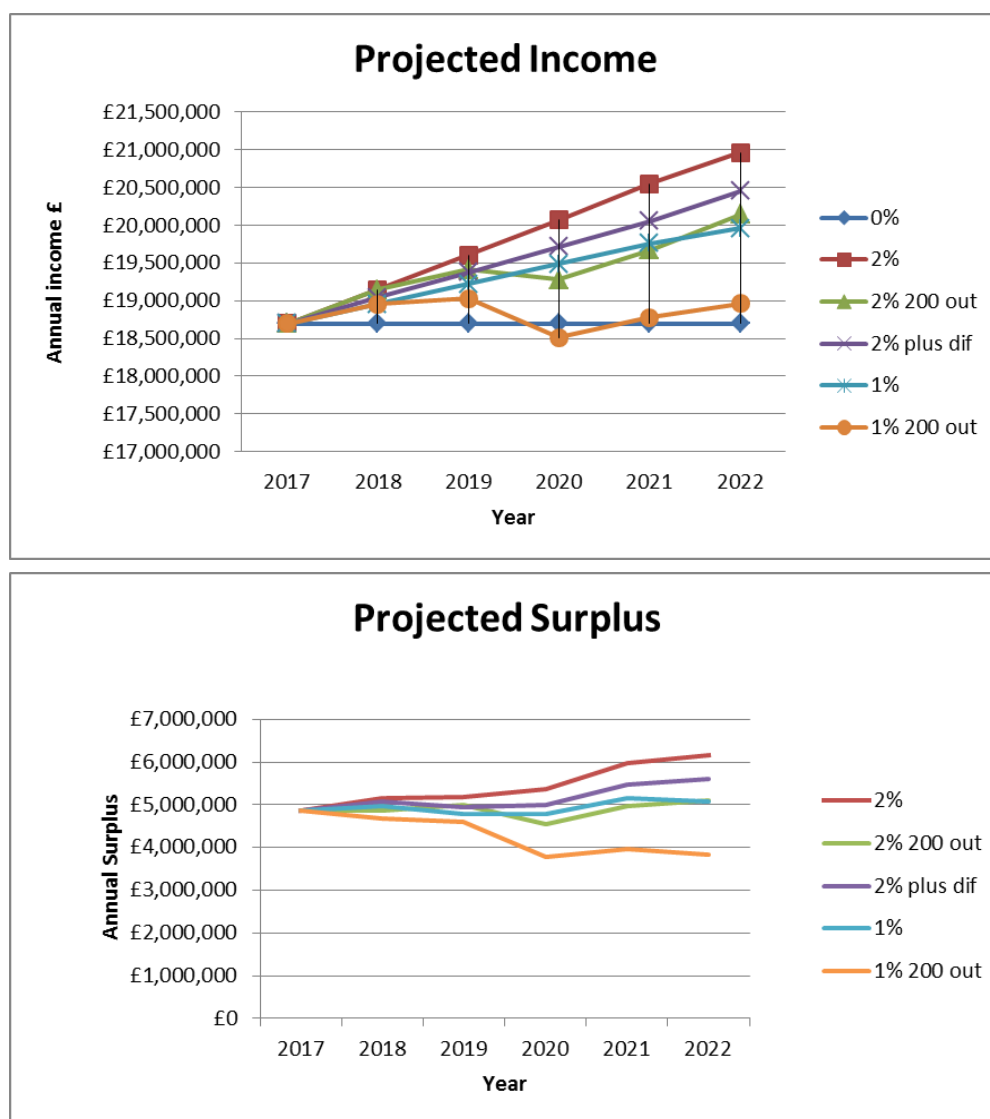
- 4.2. All models use the June 2017 forecast budget for 2017/18 as the baseline position.
- 4.3. The Bank of England August statement predicted that the Consumer Price Index (CPI) inflation figure could be anywhere in the range of between just below 0% to almost 5% by Q2 2020. The most likely range is between 1.7% and 2.9% as the BoE target is to keep inflation at 2%. An assumption of 2.2%-2.5% would be appropriate. In all models the cost of the capital programme was uprated by 2.5% per year to allow for inflation.
- 4.4. The models include indicative capital investment over 30 years based on the revised life cycle replacement timescales. Where the models allow for demolition, an extra budget of £2.5m has been included to cover the costs of a demolition programme.
- 4.5. All of the models include an increase in stock of 20 units per year until 2021 to be acquired through purchase from the open market.
- 4.6. Staffing costs have been uplifted at 1% per year over the course of the plan. The recent removal of the restriction to increase public sector pay may require this to be reviewed.
- 4.7. All models include an increase in bad debt provision to £500k per year to allow for the uncertainty that Welfare Reforms and the introduction of Universal Credit have placed on income streams. Clackmannanshire is now a “full service” area where all new applicants for DWP benefits will be placed on Universal Credit where appropriate. The inherent issues relating to the administration of Universal Credit place a pressure on rent collection as tenants currently do not receive payments for at least 6 weeks. Rent arrears build over this period and recovery can then become difficult.
- 4.8. Other income included in the models is recharged income from work carried out by HRA funded staff for the General Fund and income received from the let of HRA owned shop units.
- 4.9. In each model, the reserves balance has been kept at 4% of rental income. An additional £500k has been added to the reserve balance to underpin any costs associated with front funding repairs for private owners in mixed tenure blocks, as previously agreed by the Council.

5.0 Analysis of models

Income

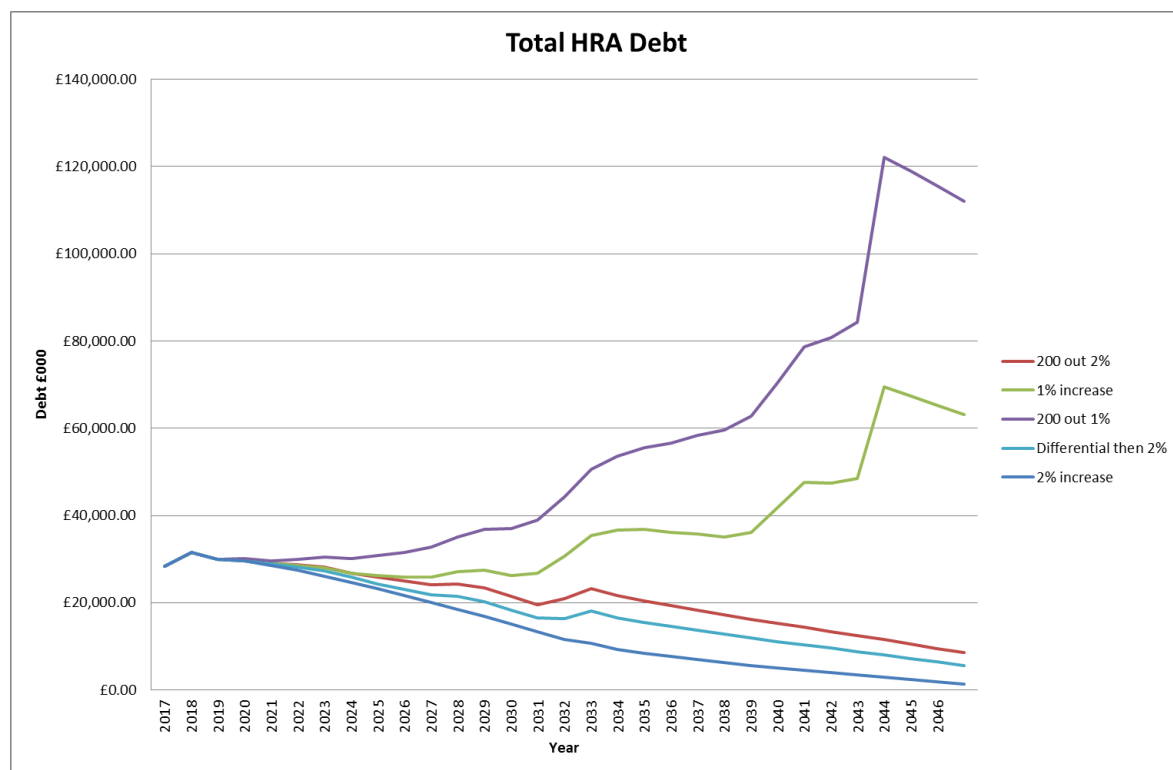
- 5.1. The key test is clearly that income should exceed revenue expenditure, with a surplus available to contribute to the funding of the capital programme and

repay debt. The graphs below show the expected income for each model and the surplus / deficit over the 5 year period of the plan.



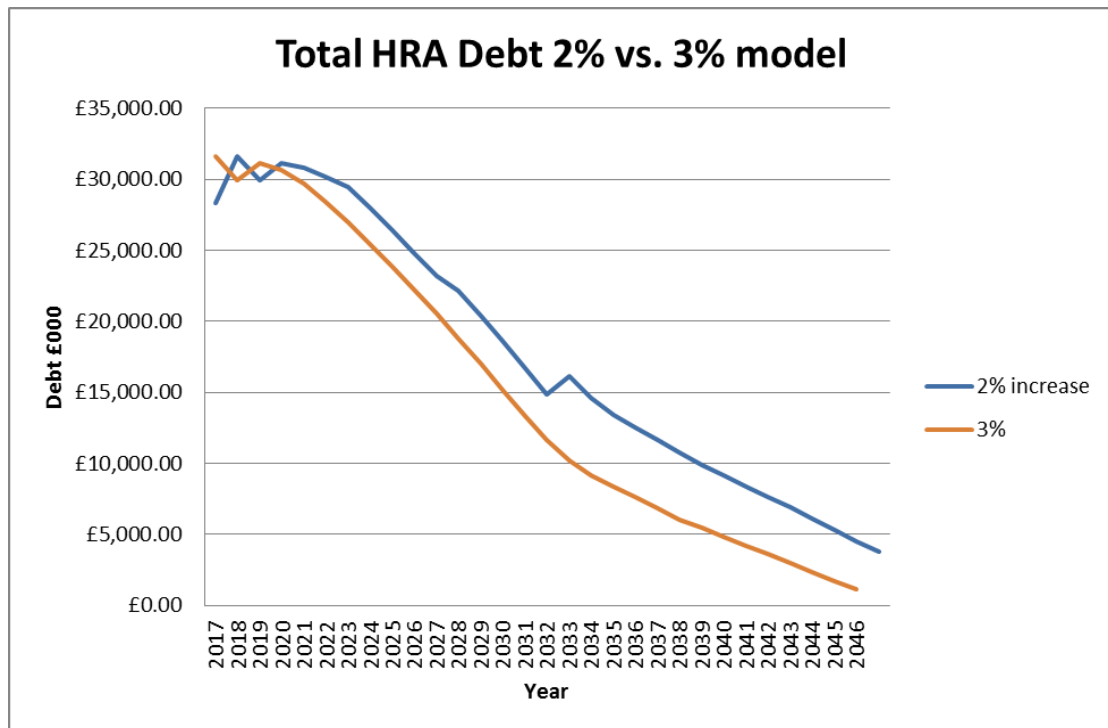
HRA debt

- 5.2. The level of debt carried by the HRA is dependent on the amount of borrowing required to deliver the capital programme. Surplus income is used to offset capital spend but any spend over and above the available surplus needs to be borrowed.
- 5.3. The different models result in different levels of debt over the full 30 year projection period. The graph shows how the debt develops over the 30 year projection period for the different models. Where the rent has been increased by 2%, the debt levels decrease over the course of the 30 year period. Where the rent increase is set at 1%, the debt levels rise significantly over the 30 year period.



Conclusion of analysis

- 5.4. The models demonstrate that a 1% rent increase is not viable. The debt rises significantly and goes well beyond the accepted limit of £35m.
- 5.5. The only viable models are those that use a 2% rental increase per year.
- 5.6. Where a 2% rent increase is applied there is a gradual decline in the debt levels over the 30 year projection period. There is a slight increase in 2033 but the total debt does not go above £35m. The capital programme can be delivered and the debt will remain within the agreed acceptable limit.
- 5.7. Unsurprisingly the least robust of the 2% increase models is the one that includes removal of 200 properties. However, it remains a viable option.
- 5.8. It should be noted that as discussed above, the current financial climate is changeable, and in particular there is a wide projection of the inflation figures which could impact on costs. As such, the plan and rent increase will be reviewed each year against actual spend and inflation levels. In view of this a 3% increase was also modelled. This however was not included in the consultation exercise and is not recommended at this time.
- 5.9. As shown in the following graph, a 3% rent increase pays down the debt significantly faster. The higher increase could be used to mitigate unfavourable changes to inflation or other assumptions.



6.0 Rent charges

6.1. The following table shows the weekly rent charges following a 2% increase.

	Weekly rent	
	17/18	18/19
Houses		2% increase
1 Apt	£ 73.92	£ 75.40
2 Apt	£ 75.71	£ 77.23
3 Apt	£ 77.55	£ 79.10
4 Apt	£ 79.11	£ 80.69
5 Apt	£ 81.08	£ 82.70
6 Apt	£ 83.06	£ 84.72
Flats		
1 Apt	£ 72.57	£ 74.02
2 Apt	£ 74.30	£ 75.78
3 Apt	£ 76.14	£ 77.67
4 Apt	£ 77.80	£ 79.35
5 Apt+	£ 79.73	£ 81.33
Average rent 48wk*	£ 77.36	£ 78.91
Lock ups	£ 7.20	£ 7.34

6.2. Applying a 2% rent increase takes the average 52 week rent to £72.84 per week in 2018/19. This equates to 29% of the weekly wage of a person receiving minimum wage working 37.5 hours per week. This is considered to be within the limits of affordability.

7.0 Consultation

- 7.1. The Clackmannanshire Tenants and Residents Federation (CTRF), supported by the Tenant's Information Service (TIS), and an independent financial adviser, examined the proposals. The full report provided by TIS is attached as Appendix 3

Financial Assessment

- 7.2. The financial adviser tested the modelled scenarios for viability over the 30 year projection period, using a range of sensitivity options, including adjusting inflation and wage costs.
- 7.3. The report concluded that the 2% increase model, and the 2% rent differential model, have a low to medium sensitivity rating.
- 7.4. The 2% increase whilst on the stock less 200 units remains viable, but is more sensitive to inflationary increases giving a sensitivity rating of medium to high.
- 7.5. It should be noted that the financial adviser notes that he was not able to determine the robustness of the spreadsheet as it was provided in a password protected format. However, the provider of the model, Link Asset Services have provided an Assurance Statement to confirm that the spreadsheet is accurate and appropriate for its purpose.

Tenant consultation

- 7.6. The CTRF held an open day on 21st October 2017 to allow tenants to give their views on the service they receive from the Council as a landlord and to give feedback on their priorities. Despite the event being well advertised through local press and on Facebook and Twitter, the low turnout (12 responses) was insufficient to provide a cross section of tenants' views on the proposals.
- 7.7. As a result a postal survey was sent to all tenants asking for views on the rent proposals. A total of 636 responses to the postal survey were received, and this is considered to be a reasonable sample (13%) of the Council's 5000 properties.
- 7.8. 66% of respondents agreed that the rent they pay is good value for money, with 64% of respondents agreeing that a 2% rent increase is affordable.

8.0 Conclusion

- 8.1. Taking into account the financial modelling and the consultation responses, a 2% increase is recommended for approval.
- 8.2. For the year 2018/19, it is therefore recommended that this rent increase of 2% is applied to all HRA Council dwellings, lock-ups and garage sites.
- 8.3. There are however various options within this proposal that will be considered further over the plan period. Along with the 2% increase on all properties, investigations will begin on the potential replacement of some of the poorer quality stock, and / or differential rent setting. The Council will be asked to consider any such proposals in due course.

9.0 Resource Implications

9.1. Financial Details

9.2. 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 ☐

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

9.4. Staffing

9.5. none.

10.0 Exempt Reports

10.1. Is this report exempt? No ☒

11.0 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	<input checked="" type="checkbox"/>
Our communities are more cohesive and inclusive	<input checked="" type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input checked="" type="checkbox"/>
Vulnerable people and families are supported	<input checked="" type="checkbox"/>
Substance misuse and its effects are reduced	<input checked="" type="checkbox"/>
Health is improving and health inequalities are reducing	<input checked="" type="checkbox"/>
The environment is protected and enhanced for all	<input checked="" type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) Council Policies (Please detail)

12.0 Equalities Impact

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

n/a

13.0 Legality

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

14.0 Appendices

14.1. Please list any appendices attached to this report. If there are no appendices, please state "none".

1. Capital Programme Replacement Cycle
2. Proposed Capital Project Budget 2018
3. Review of HRA Business Plan Model

4. Summary HRA Revenue Budget 2018

15.0 Background Papers

- 15.1. 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).

No ☐

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
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Nikki Bridle	Depute Chief Executive	Signed: N Bridle

Capital Programme Replacement Cycle

Project	Current average cost £		Current replacement cycle years		Proposed replacement cycle years
Bathrooms	3000		25		30
Heating	3000		30		30
Boiler replacement	2000		15		15
Kitchen	4000		15		20
Windows	3400		30		30
Doors	1500		25		30
Rewire	3000		30		30
Periodic Testing	1000		5		5
Fencing			30		30
Door entry	1600	Flats only	30		30
Roof Render	5000		70		70

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Project	£000	£000	£000	£000	£000
Structural Works	100	100	100	100	100
Damp Proof Course and Rot Works	100	100	100	100	100
Roof/Rainwater/External Walls	1,500	1,000	1,000	1,000	1,000
Windows	1,360	1,360	1,360	1,360	1,360
Full/ Efficient Central Heating	100	100	100	100	220
Kitchen Renewal	750	750	750	750	750
Bathroom Renewal	50	50	50	50	50
Safe Electrical Systems	750	750	750	750	750
External Works: Fencing, Gates Paths	125	125	125	125	125
Secure Door Entry Systems (4 year replacement project)	145	145	145	145	-
Disabled Adaptation Conversions	50	50	50	50	50
Construction Design Management	20	20	20	20	20
Off the Shelf Purchase	828	700	700	700	-
Tenant Community Improvement Fund	200	200	200	200	200
Misc Conversions & Adaptations	50	50	50	50	50
HRA Roads & Footpaths Improvements	100	100	100	100	100
Total Capital Programme	6,228	5,600	5,600	5,600	4,875
Budget including 2.5% inflation per year	6,384	5,884	6,031	6,181	5,516

Review of HRA Business Plan Model

Clackmannanshire Council

October 2017

“The Tenants Information Service is the leading organisation in Scotland promoting and inspiring innovative tenant participation practice. We achieve this by providing independent advice, support and training for tenants and landlords”.



1.0 Introduction

- 1.1 This report has been produced by the Tenants Information Service (TIS) in our capacity as the Independent Tenant Advisor. This report details our independent financial review of Clackmannanshire Council's 2017 Housing Revenue Account Business Plan Model. The report also provides feedback on the consultation with tenants.
- 1.2 This independent review was undertaken on behalf of TIS, by Jim Rooney of Financial Edge, an Associate of TIS. The tenant consultation was undertaken by Lynda Johnstone, Development Director, Tenants Information Service.

2.0 Background

- 2.1 TIS previously carried out the review of the 2013 HRA plan on behalf of the Clackmannanshire Tenants and Residents Federation (CTRF) and Clackmannanshire Council (Council). Last time, a comprehensive, forensic analysis of the integrated financial model took place but this time a less detailed analysis was requested.

3.0 Business Plan Model Review

- 3.1 We were given a number of models to work through our analysis and the written plan which came in the form of a PowerPoint presentation. The presentation also explained how the Housing Revenue Account (HRA) models operated.
- 3.2 Our analysis against the brief is contained at Appendix A. However, we were not able to determine the robustness or otherwise of the HRA models as they were provided to us by the Council in a password protected format. We cannot therefore fully determine if they are fit for purpose or arithmetically sound.
- 3.3 Despite this, the models do appear to correctly calculate required financing and debt from income and running cost information. On the face of it, we can agree the overall viability of 3 models:-
 - Baseline plus 2%;
 - Baseline plus 2% less approximately 200 demolitions; and
 - Baseline plus 2% and rent differential.
- 3.4 All have low levels of closing debt at the end of year 30 and peak debt in either year 1 or year 6 of the plan.
- 3.5 However, we did identify a small issue that needs to be investigated and any relevant adjustments made (see text in red in Appendix A):-

- Baseline +1% and Baseline+% (200 out) models do not tie up completely with the income profile model. This is more about completeness as these models are not viable in any case
- 3.6 Tenant rent increases will be charged at CPI or 2% whichever is the higher and benefits of the plan for them include maintaining stock at a high standard and some new housing stock from 20 Off the Shelf purchases. No new build is proposed.
 - 3.7 We are generally happy with cost assumptions made although staff inflation of 1% may be on the low side as public sector wage restraint is easing which will put upward pressure on all wages. However, in saying this, the upward pressure will eventually feed its way through to CPI inflation so an element of business plan neutrality should take place at some point in the future.
 - 3.8 Tenant rents were below the Scottish average in 2016/17, although new rent levels up to and including a 3 apartment appear higher than the average although are still within accepted affordability levels (but getting close to the maximum for those on a minimum wage).
 - 3.9 The plan is an exercise in maintaining current Council and SHQS standards for tenants, pegging rents to CPI (no above inflation increases) and reducing HRA debt. Purchase of Off the Shelf Housing is the only new development over and above looking after existing stock.

4.0 Sensitivity Testing

- 4.1 Despite model limitations, we were able to carry out some sensitivity testing although we could not extend this to flexing interest rates as the macro required for this did not appear to operate (likely a consequence of the spreadsheet protection).
- 4.2 Sensitivity was carried out on the 3 viable models (see Appendix B) and was calculated out individually for:-
 - Salary inflation – increase to 2% (same as CPI)
 - Cost inflation – increase to 3.5% (1.5% above CPI)
 - Capital cost inflation – increase to 3.5% (1.5% above CPI)
 - All of the above taken together (potential worst case).
- 4.3 Testing indicates the baseline plus 2% scenario is the most resistant to potential external shocks with the exception of worst case. Conclusion - SENSITIVITY RATING LOW.
- 4.4 This is followed by the Baseline plus 2% and rent differential which copes reasonably well with individual cost inflation but again “breaks” if all cost increases came together. This is an unlikely scenario though as universal cost inflation would tend to feed through to CPI creating a corresponding increase in income. Conclusion – SENSITIVITY RATING LOW to MEDIUM

- 4.5 Baseline plus 2% less approximately 200 properties for demolition fares the worst of the 3 viable options and is more sensitive to inflationary increases. Conclusion – SENSITIVITY RATING MEDIUM TO HIGH.

5.0 Tenant Consultation

- 5.1. TIS presented the financial independent review to the Clackmannanshire Tenants and Residents Federation (the Federation) and Council who considered the conclusion and recommendations.
- 5.2. Members of the Federation were satisfied with the analysis within the agreed brief and the Council also acknowledged the recommendations to be fair.
- 5.4. The Federation agreed that wider consultation on the HRA review was required. A communications plan including a newspaper article, Facebook information and online survey were agreed (see Appendix C). These articles offered tenants or their representative to contact TIS on the Freephone telephone number for independent advice. Twelve tenants responded to the online survey.
- 5.5. The consultation culminated in an open meeting on Saturday 21st October 2017 which was held in the Federation Office. The meeting, facilitated by TIS was attended by Federation members, a Council representative and two tenants.
- 5.6. The key issues for tenants are listed below:
- 5.6.1. The Council planned maintenance programme is efficient however issues of poor quality and workmanship were identified whereby the standard of the work has been poor.
- 5.6.2. The Council should address or publicise the menu of options for tenants contacting officers with issues relating to their tenancies. The use of email and text should be promoted for tenants who wish to use this as a communication method.
- 5.6.3. There was frustration expressed relating to the allocation process and in particular how medical needs of children with autism are taken into account.
- 5.6.4. Concern was expressed in areas with mixed tenure properties, whereby owners are not responsible to the upkeep or contribution to the maintenance of common areas.
- 5.6.5. Priorities for tenants include:
- The new build of Council Housing to cope with the growing demand of family homes ie minimum 3 apartment and lack of available housing
 - Improved standards in repairs and capital programme work and maintain the Clackmannanshire Council standard through investment.

- “Managing owners” in mixed tenure estates and ensuring tenants in these areas are valued by the Council
- Effective management where tenancies are held but the property is not occupied
- Value for money and smart expenditure

6.0. Conclusion and Recommendations

- 6.1. We could not carry our normal detailed testing as the business plan models given to us were protected. This means we cannot give an opinion on the fitness for purpose or accuracy of the model results.
- 6.2. Of the parts we could check, it appears general assumptions feed through to income and costs and borrowing is updated. This gives the basic information to form an opinion on the viability of the models as presented.
- 6.3. Three models are viable and are those based on a 2% rent increase. Sensitivity testing indicates the baseline plus 2% and baseline plus 2% with differential are best able to withstand an increase in costs above those assumed in the plan.
- 6.4. The plan represents a consolidation of existing high standards for tenants rather than growth through development – although 20 Off the Shelf purchases are included in the period 2018 to 2021.
- 6.5. New rent levels from 2017/18 appear to place the Council rents above the Scottish average which was not the case in 2016/17 although still within affordable limits. The Council should pay close attention to affordability criteria as future 2% increases start to impact rents at all levels.
- 6.6. The business plan model involves manual processes which increases the scope for error. Moreover, the summary plan page should not be in a position to be disregarded as outlined in the written plan – this is a key control document. Additional work should be directed towards the business plan model to integrate and automate as far as possible.
- 6.7. The Council consider and respond to tenants regarding the issues raised in the consultation.

Summary HRA Revenue Budget 2018/19

	2017-18 Budget	2018-19 Budget
REPAIRS & MAINTENANCE		
Private Contractors	£295,000	£302,000
General Maintenance	£7,013,731	£7,140,000
	£7,308,731	£7,442,000
SUPERVISION & MANAGEMENT		
Employee Related Expenditure	£2,371,079	£2,395,000
Premises, Transport, Supplies & Services	£166,070	£166,000
3rd Party Payments	£92,950	£93,000
Central Support	£1,084,410	£1,099,000
Democratic Core	£105,000	£105,000
	£3,819,509	£3,858,000
Capital Financing Costs		
Interest Payments	£1,457,000	£1,164,000
Loans Fund Expenses	£29,000	£30,000
Principal Repayments	£1,533,000	£1,562,000
	£3,019,000	£2,756,000
OTHER EXPENSES		
Provision for Bad Debt	£250,000	£500,000
Void Rent Loss	£480,870	£488,000
Property Insurance	£200,000	£203,000
Council Tax & Stair Lighting	£29,000	£29,000
Garden Aid Scheme + Land Maintenance	£180,300	£183,000
Special Uplifts	£167,000	£170,000
Pest Control	£25,600	£26,000
	£1,332,770	£1,599,000
TOTAL EXPENDITURE	£15,480,010	£15,655,000
INCOME		
Rents/Interest on Revenue Balances	-£18,997,640	-£19,216,000
Income from Charges	-£1,607,370	-£1,607,000
TOTAL INCOME	-£20,605,010	-£20,823,000
NET EXPENDITURE	-£5,125,000	-£5,168,000

