Appendix Two

Tamworth Borough Council: update of HRA Self Financing Business Plan model

The baseline model has been updated to start at 2011/12, set to provide for the assumptions set out below and reconciled to the 2011/12 HRA budget and capital programme. The latest version represents the current understanding of the baseline for the HRA subject to review work which may be needed around a number of key areas in preparation for self financing:

- Developing approaches to splitting management costs to allow the modelling of different types of expenditure in different ways
- Developing a more detailed rent forecast which has regard to individual property convergence and the split of rents and additional charges
- Understanding how capital works on the stock have affected the long term stock survey needs and phasing
- The calculation of a suitable charge for depreciation (long term major repairs) for the stock and confirmation of the charge for non dwellings
- The splitting of debt into a separate HRA pool and the circumstances of the forthcoming self financing transaction.

A review meeting will take place on 16th June to work further on the baseline and develop action planning for bringing the business plan and model forward for decision in the autumn. This note summarises progress.

Macro assumptions

The main assumptions utilised in the model are scheduled below.

- 4,525 total properties with 5 annual Right to Buys – all retained RTB receipts (ie 25% of the overall total) available for HRA capital finance.
- Self financing settlement £78.438m from April 2012 with a debt cap at the same amount – this is likely to increase with the final settlement for April 2012 as RPI inflation is greater than assumed in the national model that was published on 1st February.
- Actual opening debt below subsidy settlement by c£11.8m giving significant additional borrowing headroom in the plan from the outset.
- Total capital needs are £165m over 30 years (£36k/unit at today's prices) based on the Stock Condition Survey of August 2009 adjusted for the capital programme for 2011/12; procurement fees of 8% have been added from 2012/13 to the end of the plan – this also provides an element of cost uplift since the date of the survey. There is a need to understand the impact of work done on the stock since the date of the survey and how this has affected future needs and phasing.
- The 4 years capital programme need from 2012-2016 therefore is built from the survey, with elemental renewals phased evenly, and totals £35.3m. This would represent a significant draw on borrowing headroom and revenue contributions if programmed at this level.

- Beyond 2016, capital spend per the stock survey reduces – there may therefore be options to further smooth investment needs over a period longer than 4 years from 2012.
- In year one, depreciation is included at £2.83m; in subsequent years, depreciation is included at the uplifted MRA from the settlement - £4.2m. A review is required to support the future calculation of depreciation.
- Revenue non-rent income and management and maintenance have been rolled forward with inflation: total net M&M spend is £7.3m in 2011/12 compared to £7.8m provided for in the settlement; the plan therefore continues to benefit financially from relatively low M&M spend compared to the funding provided for.
- Long term interest rates are 6% and general inflation 2.5% - the current interest rate is relatively high at 5.75% due to the treasury management position of the council – it has been assumed that the new debt will come on stream at or around that level and provided for a gradual increase in rates over the first 5 years.
- Rent increases are based on an assumed even trajectory to rent convergence in 2016 – ie that the c£3 catch up to formula rents will be gradually achieved over the period to 2016; there is a need to understand further the underlying property and service charge position.

Summarising outputs

The 4 year capital need (2012-2016) based on the stock survey as adjusted is summarised as follows with the potential sources of finance. Decisions around the deployment of resources will affect the size and nature of the programme – there is however the potential to increase the programme beyond current levels

Description	Programme included * £m
Programme	**35.2**
Depreciation (set aside for major repairs) *	18.8
Receipts	0.3
Available revenue contributions	7.6
Use of borrowing headroom	8.5
Total resources	**35.2**

** the increase in depreciation effectively replaces current RCCOs*

There are therefore a range of substantial sources of finance to enhance investment in the stock – alternatively these might be committed to other priorities eg services or in providing new homes. Alternatively, if future resources are committed immediately to reducing borrowing, the opening debt can be covered down to zero within 23 years.

There is however no requirement to bring debt down – in fact the case for maintaining debt at a managed level whilst additional surpluses and current accumulated reserves are committed to expanded programmes is strong. A key aspect of the preparation for self financing should focus on gaining a sense of priorities from stakeholders and members in where to deploy additional resources.

The overall outputs represent essentially a similar prognosis as the work which was undertaken last year in response to the prospectus produced by the previous government. There do however remain some uncertainties around the outcome of some of the major assumptions made. The impact of recent work on investment needs is important on an ongoing basis as well as being clear about the possible detailed scenarios arising from future debt and treasury management.The charts overleaf summarise the updated baseline position.

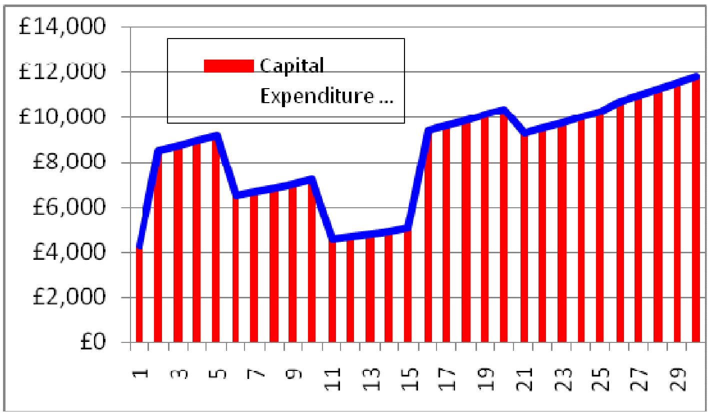
In preparing for self financing, the council might also consider the format of the documentation required to support decision making, especially as time will be limited in the autumn when the draft final settlement is published. Some of the key financial inputs can be worked up (debt charges and preparing for the transaction, depreciation) as soon as possible. Although the settlement numbers will change, and it is difficult to be too precise about what those changes might be, many are considering it appropriate to develop some form of ‘plan’ to gain member and tenant support for decision making across the summer.

Key Actions

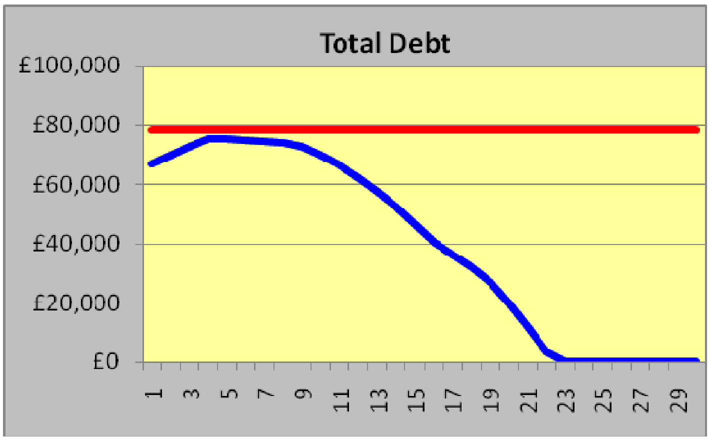
Key actions for Tamworth Borough Council to work through include:

- To develop and implement a strategy for engaging tenants, members and other key stakeholders in the development of the business plan particularly around the priorities for using the headroom and potentially increased resources.
- To map out the governance arrangements that will be used to oversee the housing business.
- To think through the options for borrowing the additional money (£44m) and formulating a treasury strategy to optimise further investment and repayment decisions.
- To review asset management plans including stock condition information to inform capital spend profile within the plan. The plan will provide considerable opportunities for investment in housing and wider regeneration and these should be explored along with options for new build, investment in services and how the resources within the plan might make a wider contribution to the objectives of the council.
- To review the policy on charging depreciation in light of any professional guidance.

Capital programme vs resources



Plan based on stock condition survey as adjusted; fully financed all years.



Debt can be repaid comfortably within 30 years if required following drawdown assumed to meet spending needs in the early years – the critical period is years 6-15 when spending needs are lower than resources generated and debt can be brought down – alternatively reserves built for the future.

The plan is therefore quite tight in the early years if the spending needs from the stock survey are factored in. Headroom grows over time - the real terms present value of unused surpluses is c£30m over the 30 years.

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CIH June 2011