APPENDIX 2

Gateshead Council

# HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN 2022-2052

**CONTENTS**

## 1. INTRODUCTION

1.1 The Housing Revenue Account (HRA) is the financial account used to manage the Council's activities as a landlord. It is a ring-fenced account and can only be used to provide services to Council housing tenants through the collection of rent and other service charges.

1.2 The HRA Business Plan is a key strategic document which sets out the Council's income and expenditure plans for delivering Council Housing Services in Gateshead.

1.3 Following approval of the 30-year HRA business plan 2021-2051 the Office for Budget Responsibility (OBR) updated the inflation forecasts which impacted the business plan. Rather than updating the actual business plan amendments were made and factored into the budget 2022/23 and the 5-year medium term position.

1.4 This refresh of the plan is set against a backdrop of an extremely challenging financial situation. There is spiralling inflation amidst uncertainty around international issues, the national economy and cost of living crisis, notably around food, fuel and utility prices across the country.

1.5 As this is a 30-year plan, assumptions become more uncertain with each year of the plan. The primary risks are in relation to future inflation and interest rates, however, the most up to date forecast information has been used in the preparation of the plan.

1.6 Overall, the revised HRA Business Plan is a fully costed, sustainable plan and does not breach the minimum £3 million reserve balance during the life of the plan (30 years). The plan requires as a minimum efficiency savings over the medium term of £3.794 million with a requirement for this to be front loaded with £1.468 million required in 2023/24.

1.7 Whilst the borrowing is affordable within this plan, debt needs to be managed in the overall context of affordability for the Council. The risks associated with borrowing will therefore need to be kept under review.

1.8 To accommodate the below inflation rise in rents resulting from the limit on rent increases of 7%, borrowing will need to increase to £601.424 million by year 30 which is £94.229 million more than estimated in February 2022 when the 2022/23 budget was set. Additional borrowing will start to accrue in year 9 of the plan rather than year 17.

1.9 This plan should be read in conjunction with the other key housing strategies and policies which set out how the above ambition can be achieved.

## 2 NATIONAL POLICY CONTEXT

2.1 The HRA operates within a political environment and therefore any changes in national housing policy can have a significant impact on the HRA Business Plan.

### 2.2 National Social Rent Policy

2.2.1 The Welfare Reform and Work Act 2016 included a statutory obligation for registered providers of social housing to reduce their rents by 1% per year, irrespective of inflation, from April 2016 to March 2020.

2.2.2 From April 2020, the Regulator of Social Housing's (RSH) Rent Standard made provision for a maximum annual increase in social housing rents of CPI plus 1% with effect from April 2020 for a period of five years.

2.2.3 In the Autumn Statement the Chancellor following a previous consultation on a cap for 2023/24 announced a cap on rent increases of 7%. The exact details of the changes to the rent policy for 2023/24 have yet to be issued and therefore this plan assumes a rent increase of 7% across all stock types reverting back to rent policy of CPI+1% for 2024/25.

2.2.3 Any increase in rent will mean an impact on tenants' household budgets but the additional income is vital to maintain and improve the services we provide to tenants, invest in our existing housing stock in accordance with the stock condition surveys and develop new social housing to address the needs of local people.

2.2.4 Future rent increases will not mitigate against the reductions during 2016-2020 and it now means that rents are now set against a lower baseline than they would have been.

### 2.3 HRA Borrowing Cap

2.3.1 In October 2018 the Government issued a determination removing the HRA debt cap. The HRA debt cap for Gateshead was £345.505 million, but current borrowing is below that level.

2.3.2 The removal of the cap provides the Council with more freedom and flexibility to undertake additional borrowing subject to the principles of the Prudential Code for Capital Finance in Local Authorities of affordability, sustainability and prudence.

2.3.3 Primarily this will help the Council in its commitment to deliver more affordable housing. However, we can only use this flexibility to finance activities that generate sufficient income for the HRA to offset the required upfront capital and management costs associated with the investment within the HRA business planning horizon. Using the borrowing capacity in any other way will bring additional financial risk to the HRA Business Plan.

### 2.4 **Welfare Reform**

2.4.1 The measures introduced in the Welfare Reform Act 2012 represented the biggest change to the benefits system in a generation. There have been repeated delays to the full implementation of the changes, particularly the rollout of Universal Credit to those already claiming legacy benefits. A further delay has recently been announced postponing the migration of those claiming Employment Support Allowance to 2028.

2.4.2 By the midway point of the current year (2022/23), 37% of council tenants were in receipt of Universal Credit, and 34% were still receiving Housing Benefit. In the coming years, the proportion of tenants on Universal Credit will increase as those still on Housing Benefit are moved over.

2.4.3 Universal Credit is paid in arrears and in most cases directly to the recipients rather than to the landlords. Rent arrears of those tenants on Universal Credit have increased, especially in the early weeks of a claim. At the end of year 2021/22, the average rent arrears of tenants on Universal Credit were £470, more than five times that of those still on Housing Benefit (£82).

2.4.4 This combined with the benefit cap and the under-occupancy charge continues to be a challenge and poses a risk to the level of potential rent arrears that may accrue. The risk is made even more acute in the context of cost of living increases for residents.

**2.5 The Charter for Social Housing Residents (Social Housing White Paper)**

2.5.1 In November 2020, the Government issued its Social Housing White Paper – The Charter for Social Housing Reform, in which it sets out fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it, including an enhanced regulatory regime for local authorities. The paper set out seven principles which will underpin a new, fairer deal for social housing residents:

- To be safe in your home – to ensure every home is safe and secure
- To know how your landlord is performing – including on repairs, complaints and
- To have your complaints dealt with promptly and fairly – with access to a strong Ombudsman
- To be treated with respect – backed by a strong consumer regulator and improved customer standards
- To have your voice heard by your landlord – for example through regular meetings and scrutiny panels
- To have a good quality home and neighbourhood to live in – keeping homes in good repair
- To be supported to take your first step to home ownership – a ladder to other opportunities, should tenants circumstances allow

2.5.2 Whilst the Government has still to confirm its legislative timetable for enacting the White Paper, more clarity has emerged on some aspects of the likely legislation including:

- Regulatory confirmation of new tenant satisfaction measures from 2023/24.
- Conclusion of the initial stages of the review of the Decent Homes including confirmation of a requirement to install smoke and carbon monoxide alarms to all homes.
- Strengthening of the Housing Ombudsman service, including a new Complaint Handling Code.
- Establishment of a new, national Social Housing Quality Residents Panel.

## 2.6 Housing Growth

2.6.1 Addressing the housing shortage is a priority issue for the Government and one that carries clear expectations on how housing supply is increased in order to meet local housing needs. The Government is also keen that people can be supported into home ownership and have made available a number of packages and initiatives to enable social landlords to deliver new homes which specifically support this agenda.

2.6.2 In March 2012 the Government published a policy paper '*Reinvigorating Right to Buy and One for one Replacement'* and statutory instrument (2012 No. 711) which amended the capital finance regulations. As part of this Councils were able to sign an agreement with government to retain additional right to buy (RTB) receipts known as 1-4-1 receipts which have certain conditions attached to their use. In 2021 in response to a 2018 consultation these conditions were amended to give Council's more flexibility and extended the period for which they could be used. The aim of this was to enable more affordable homes to be built effectively replacing those bought through RTB.

## 2.7 Climate Change and the Low Carbon Future

2.7.1 The Government has committed to tackling climate change and intends to set a target of reducing domestic emissions to zero. The Government has indicated the possible revision of the Decent Homes Standard and of this including a requirement to achieve EPC D by 2025 and EPC C by 2030, thereby obliging us to meet these targets. The RSH therefore expects social landlords to be working to understand the potential costs of making carbon reduction improvements to our assets. A Net Carbon Zero Strategy will be developed to accompany the HRA Asset Strategy.

## 2.8 Building Safety Act 2022

2.8.1 The Government passed the above Act in April 2022 and is in effect its response to the Grenfell Tower fire tragedy in 2017.

2.8.2 The Act requires the Council to register its in-occupation, high-risk, high-rise buildings with a newly established Building Safety Regulator (BSR). All buildings over 18m in height or with 7 or more storeys are captured in the scope of the Act. The Council's accountable person must apply for a Building Assessment Certificate based on a submitted Building Safety Case Report for each building. This process will commence from April 2024. The BSR has significant powers if there is a breach of the Act's requirements.

## 2.9 Fire Safety Act 2021

2.9.1 The Act makes amendments to the Regulatory Reform (Fire Safety) Order 2005 ("the FSO") and extends the provisions of the FSO to the following parts of a multi-occupied residential buildings:

- the building's structure, external walls and any common parts. The external walls include doors or windows in those walls, and anything attached to the exterior of those walls, e.g. balconies and cladding.
- all doors between the domestic premises and common parts.

2.9.2 Under Article 3 of the FSO, the "responsible person" of a premise (either a building or any part of it) is the person who has control of the premises ("the Responsible Person"), which may include building owners, leaseholders or managers.

2.9.3 The Council will take a pro-active approach to ensure compliance with the provisions

## 3. LOCAL POLICY CONTEXT

3.1 The HRA Business Plan is set within a wider strategic context of the overall ambitions of the Council and those of the Housing Service.

### 3.2 Strategic Approach

3.2.1 The Council's strategic approach, Making Gateshead a Place Where Everyone Thrives provides a framework to demonstrate how the Council will work and make decisions.

3.2.2 Thrive is underpinned by five key pledges:

- Putting people and families at the heart of everything we do;
- Tackling inequality
- Supporting our communities to support themselves and each other;
- Investing in our economy to provide sustainable opportunities for employment, innovation and growth; and
- Work together and for a better future for Gateshead Council

3.2.3 The HRA Business plan supports the delivery of these pledges.

### 3.3 Health and Wellbeing Strategy

3.3.1 The Health and Wellbeing Strategy identifies clear outcomes to support the delivery of "Gateshead Thrive". Housing is identified as one of the wider determinants of health and can play a vital role in the long-term health and wellbeing of an individual.

### 3.4 Housing Strategy

3.4.1 The Housing Strategy identified clear housing objectives and priorities, puts forward a vision for housing in Gateshead, and sets a framework for how the Council will deliver services and interventions, and work in partnership with others, in a way that will help achieve those objectives. It includes three overarching strategic objectives:

- Sustainable housing and economic growth
- Sustainable neighbourhoods
- Improved Health and Wellbeing

### 3.5 HRA Asset Management Strategy

3.5.1 The HRA Asset Management Plan sets out the Council's approach to managing the housing related assets held in the Housing Revenue Account. It covers a range of activities that will ensure that the housing stock meets the needs of residents and the standards required, both now and in the future. Its five key aims are;

- Delivering Decent Homes
- Maximising Energy Efficiency

- Ensuring Compliance
- Regeneration of Estates and Assets
- Investment in IT Infrastructure
- Developing New Homes

### 3.6 Homelessness and Rough Sleeping Strategy

3.6.1 The Council's Homelessness and Rough Sleeping Strategy aims to eradicate rough sleeping in Gateshead, make homelessness a rare and one-off occurrence, and achieve positive outcomes for anyone who is homeless. The HRA will help to support delivery of this strategy through the provision of much needed new affordable homes, and in contributing to the delivery services to support and realise sustainable tenancy solutions for those who may be at risk of homelessness.

### 3.7 Housing Development Strategy

3.7.1 A new Housing Development Strategy has been introduced by the Council which confirms priority actions to be undertaken over the next five years to maximise housing supply on existing and new sites. This strategy also aligns with the Council's medium-term position and investment plan.

### 3.8 Tenancy Strategy and Allocations Policy

3.8.1 The Tenancy Strategy which was recently approved in October 2022 together with the Allocations Policy will help to deliver on the strategic aims of the Housing Strategy. It will ensure statutory and regulatory compliance by ensuring our properties are let in a fair, transparent and efficient way, make best use of our stock, reduce the amount of time properties are empty, address under occupation and overcrowding and to meet our strategic housing needs, including homelessness.

### 3.9 Resident Influence Strategy

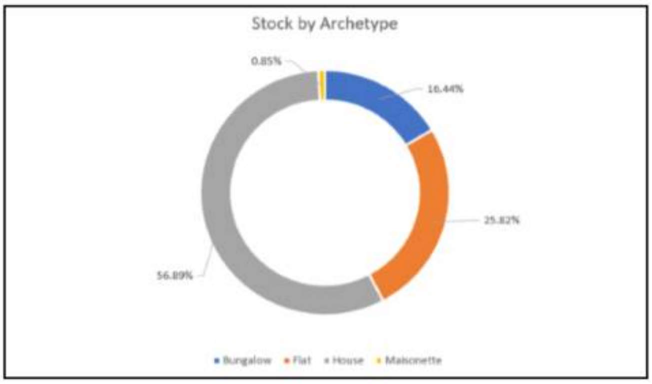
3.9.1 The Resident Influence Strategy and Framework has been developed within the context of a national regulatory framework. The Regulator of Social Housing sets four Consumer standards that applies to all registered social landlords including local authorities. The Tenant Involvement and Empowerment standard is one of the four Consumer standards. It sets out clearly the requirement that registered providers shall ensure that tenants are given a wide range of opportunities to influence and be involved influencing decisions, shaping policies, and recommending service improvements.

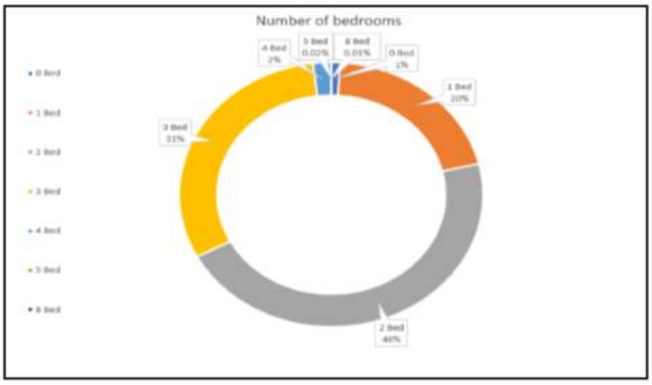
## 4. HOUSING INVESTMENT PLAN

### 4.1 Dwelling Stock Profile

4.1.1 The following graphs outline the profile of the HRA dwelling stock within Gateshead.

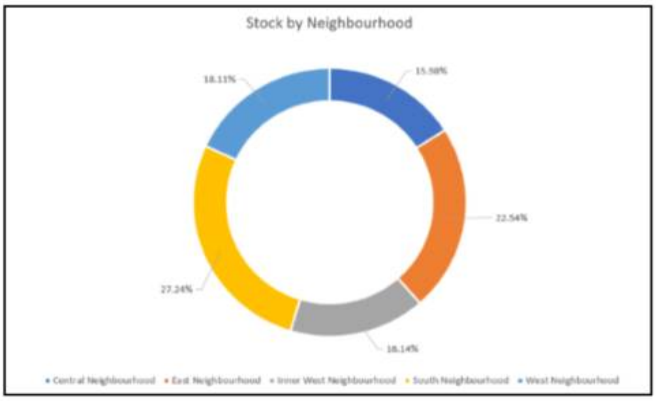
We own over 18,000 homes and provide leasehold services to over 900 properties




There are over 130 estates managed across five Neighbourhood areas

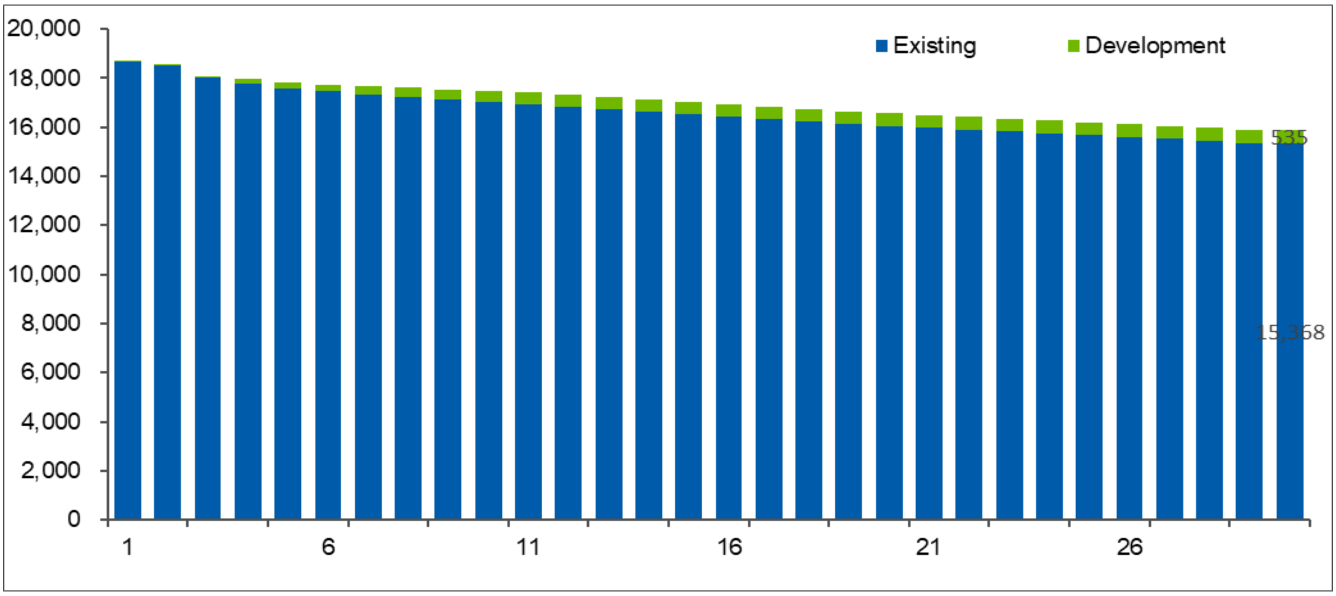
Homes are predominantly older style traditionally built properties




Homes with three or more bedrooms are in high demand and short supply

There is low demand for multi storey flats and larger 2+ bed medium rise flats

4.1.2 The predicated 30 year stock position is shown in the graph below. Accounting for the predicted sales of properties through Right to Buy, the potential impact of stock options and predicted development opportunities housing stock is predicted to be 15,903 by year 30 of the plan.



## 4.2 Other HRA Assets

4.2.2 The HRA also owns a number of non-domestic assets, which are predominantly made up of garages, lounges, shops, land and play equipment. Reviews of the status of non-domestic assets has commenced. These are exploring how these assets are used and whether disposal, demolition or a change of use would bring more value to the HRA to better help, support and sustain neighbourhoods & communities.

## 4.3 Investment Priorities

4.3.1 The capital investment included in the plan is based on the stock condition surveys of the current stock, and also includes the following:

- Progress towards net zero carbon
- Ensuring compliance with building safety measures
- Investment in garage sites
- Investment in IT Infrastructure
- Investment in the commercial stock
- Investment in communal areas and the wider environment
- Continued investment in disabled adaptations
- Support to increase the opportunities for Fostering within the social housing portfolio

## 4.4 General Stock Investment

4.4.1 Since the end of the Decent Homes Programme the balance of responsive repairs verses planned works have shifted and excessive responsive repair interventions are being delivered. As part of the Construction Services review work has commence to address the split between responsive and planned so that more work is delivered in a planned way, ensuring value for money and the efficiencies associated with programmed works.

4.4.2 A tool has been developed that will analyse estate-based repairs to gain insight into the numbers of repairs and the type of work being delivered, then assessing it against stock condition data. This tool will be embedded and used to identify trends and drivers for expenditure to aid planning and deliver an appropriate balance of reactive repairs and planned investment and ensure this is aligned with our understanding of stock condition and asset sustainability.

## 4.5 Net Zero Carbon

4.5.1 The HRA will need to invest c.£265 million into insulation measures and new heating technologies. Investment costs average around £16,000 property and in some cases are as much as £37,000. The HRA business plan includes some allowances for costs for energy efficiency measures and improvements but support from public funding will be required to meet our obligations around energy improvements and net zero carbon.

## 4.6 Building Safety Measures

4.6.1 The Council is committed to ensuring tenant safety and the intention is to ensure that assets meet all applicable health and safety requirements so that all residents and visitors are confident that they are in a safe and secure environment. There has been significant investment into strengthening the safety of our assets over the last two years, and the necessary investment will be maintained to continue to ensure all assets are compliant.

4.6.2 As part of the consolidation of housing services into the Council new and strengthened governance and scrutiny processes have been introduced to protect customers and the sustainability of the HRA.

4.6.3 A robust and resourced Building Safety Team continues to be developed to manage the Council's approach to this critical area of safety-based work and assurance. Strong condition data, process drive IT systems, robust building assessments and maintenance information will help protect the HRA from unplanned high cost and non-compliance.

4.6.4 As a building owner of higher risk residential buildings, such as high-rise buildings, we will compile and maintain safety case files and have appointed a building safety manager to support the management of our assets.

## 4.7 Garage Sites

4.7.1 Garages make up the largest proportion of non-domestic assets. These are assets that are formed of blocks or individual units that are not tied to or let as part of a domestic tenancy.

4.7.2 There are 3,678 garages currently in the HRA making up 512 garage block sites. All garage blocks have been stock condition surveyed and sites have also been appraised to assess their potential future use. Almost £1 million has been allocated in the business plan to start delivering on the garage review over the next five years. The first non-viable sites will be decommissioned and demolished in 2023 and work is progressing an external partner to explore the prospect of changing the use of some sites to provide domestic accommodation.

## 4.8 Investment in IT Infrastructure

4.8.1 The current IT systems are structurally fit for purpose; however, there is insufficient interfacing or linkages to ensure a 360 view of all business intelligence. To strengthen the approach to data and ensure a robust and resilient approach a systems a review is underway. It will assess the existing IT strategy and future organisational need. The recommendations from the review will support IT infrastructure improvements and future procurement exercises.

## 4.9 Investment in Commercial Stock & the Wider Environment

4.9.1 There are also a small number of fixed play equipment sites that fall within the management of the HRA. These sites carry with them inspection and compliance requirements as well as ongoing maintenance costs. In partnership with communities these sites will be reviewed.

4.9.2 It is recognised that there is a need to review the status of non-domestic assets to explore how they are used and whether a change of use would bring more value to the HRA and better help support and sustain neighbourhoods & communities.

## 4.10 Disabled Adaptations

4.10.1 The Council recognises its social responsibility to support vulnerable and disabled residents to remain independent in their home. There is an annual budget for the provision of minor works, like handrails, through to major adaptations such as adapted bathrooms or property alterations.

4.10.2 Demand for adaptations in council homes remains high, with a large proportion of residents defining themselves as having a disability. The approach to adaptations must remain sustainable and viable, make the 'best use' of our stock by ensuring that properties are allocated appropriately, that investment is only made into sustainable adaptations, and that value for money is achieved.

## 4.11 Stock Options

### 4.11.1 High Rise Blocks

1. The analysis of the future pressures on the HRA highlights high rise blocks as a key area of concern. The high-rise stock is commonly characterised as a liability to the HRA resulting from high investment cost, low demand and high management requirements.

2. Redheugh & Eslington Courts were deemed unviable and are currently being decommissioned, with residents being decanted and will be demolished when empty.

3. Warwick Court is undergoing a decommissioning process and a review of potential alternative uses for the block is being established.

4. Decomissioning work is continuing at Sir Godfrey Thompson Court and Crowhall Towers, work to procure a demolition contractor is likely to begin in early 2023.

5. The strategic roadmap, subject to the decision-making process and consultation, is to undertake further options appraisals in line with the priorities laid out in the HRA Asset Strategy 2022-27.

### 4.11.2 Older Person's Housing

1. Gateshead has seven older persons' purpose-built housing blocks. They include over 200 sheltered 1-bedroomed and 2-bedroomed flats. Angel Court is the only modern purpose-built scheme.

2. There is also a disproportionate spread of blocks across the borough. The East, Central and West Neighbourhoods have one block each, while in the South there are four schemes. It is proposed to undertake a specific Older Persons' purpose-built block review starting in 2023.

### 4.12 New Development

4.12.1 The plan includes the development of new social housing units of 40 per annum for 10 years from 2022/23 and it has been assumed that there will be an opportunity to bid for Homes England grant funding to support the delivery of these units.

4.12.2 There is also provision for the 44 units at Whitley Court that are incrementally being let during 2022/23.

## 5. HRA FINANCIAL PLAN

5.1 The Financial Plan shows how both the Council Housing Investment Programme and the day to day Council housing services will be funded.

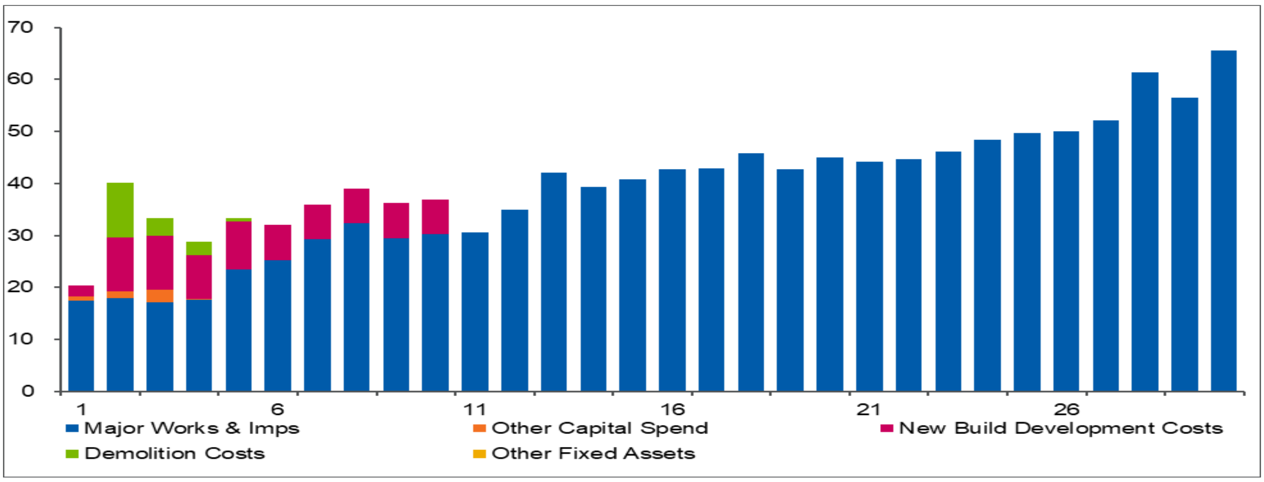
5.2 Overall, the revised HRA plan is fully costed and does not breach a minimum £3 million balance during the life of the plan (30 years). However, to incorporate the cost pressures and anticipated capital investment, including new social housing stock, borrowing will need to rise significantly above the current levels.

5.3 A copy of the HRA Operating Account 2022/23 to 2051/52 is attached at Appendix 1.

5.4 The plan requires as a minimum savings of £3.794 million which has been phased as follows:

| Year | Total Annual Savings £000 | Total Cumulative Savings £000 |
|---|---|---|
| 2023/24 | 1,468 | |
| 2024/25 | 970 | 2,438 |
| 2025/26 | 733 | 3,171 |
| 2026/27 | 623 | 3,794 |
| 2027/28 | - | 3,794 |
| **Total** | **3,794** | |

5.5 The capital investment included in the 30-year plan is £1.261 billion the split of which is detailed in the following graph:

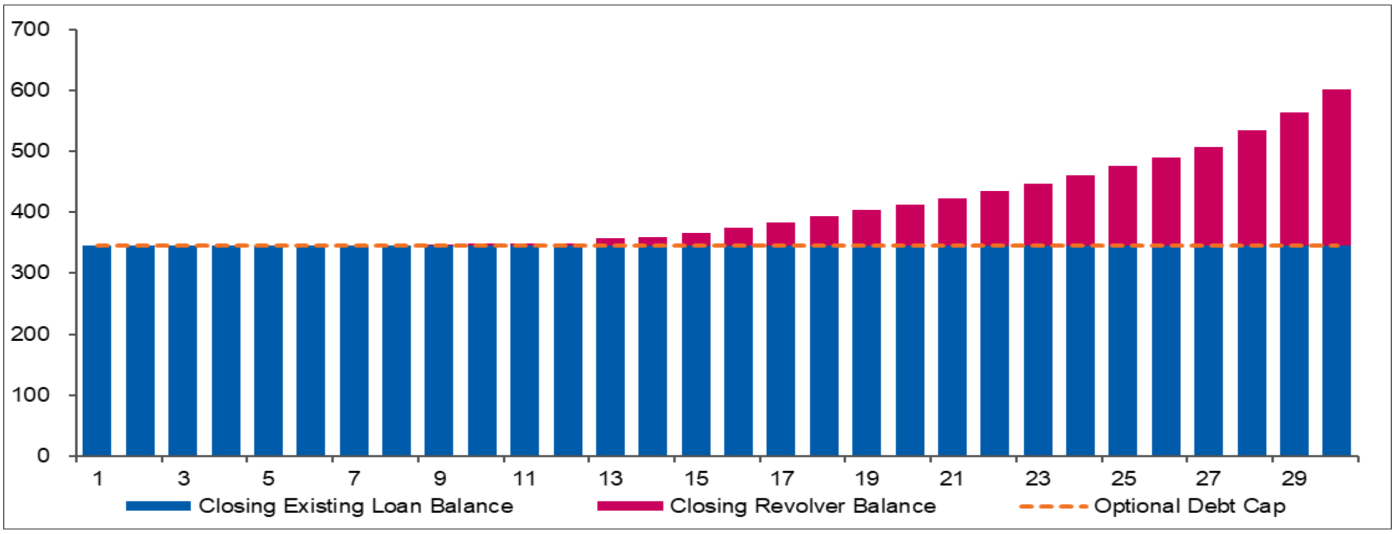


5.6 A summary of the planned 5-year 2023/24-2027/28 capital programme is shown in appendix 2.

### 5.7 Borrowing Requirement

5.7.1 The proposed plan shows that by year 30 borrowing will increase to £601.424 million which is £255.919 million higher than the current underlying loan debt. Borrowing will however not rise to a level above this until year 9 (see the following graph).

5.7.2 Whilst the borrowing is affordable within this plan debt needs to be managed in the overall context of affordability for the Council. The risks associated with borrowing will therefore need to be kept under review.




### 5.8 HRA Reserve Balances

5.8.1 The HRA can budget for a deficit in a particular year, but the HRA total reserve balance must not be negative. The business plan is set to assume that if the assumptions resulted in the reserve balance falling below the minimum required of £3 million in any year, then borrowing will be required. Borrowing can only be for capital purposes. Where revenue reserves are exhausted due to revenue expenditure exceeding income, then mitigating action is required.

5.8.2 The plan shows that over 30 years, the surplus carried forwards stays above the minimum balance.

5.8.3 The plan also shows that there are years where reserves will be used to fund predicted peaks in the capital programme due to lifecycle replacements. This minimises borrowing and reduces the level of interest charges that would be incurred.

### 5.9 Key Assumptions

5.9.1 The financial plan is based on a number of key assumptions to mitigate against risks or changes that may occur over the life of the Business Plan.

5.9.2 The assumptions used for the next 5 years over the medium-term period 2023/24 -2027/28 are outlined in the table below. As the HRA plan is over 30 years future assumptions have been made in respect of the key items listed.

| Assumptions | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| CPI | 10% | 4% | 2% | 2% | 2% |
| RPI | 12% | 5% | 3% | 3% | 3% |
| Rent increase – as per scenarios for 2023/24 | 7% | 5% | 2% | 2% | 2% |
| Service Charges | 10% | 4% | 2% | 2% | 2% |
| Energy Increase – included in management non-staff costs | 10% | 4% | 2% | 2% | 2% |
| Pay Inflation | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% |
| Repairs and Maintenance – non-staff costs | 12% | 5% | 3% | 3% | 3% |
| Supervision and Management non-staff costs | 10% | 4% | 2% | 2% | 2% |
| Capital Works Costs – except certain fixed elements | 12% | 5% | 3% | 3% | 3% |
| Void Rates | 2% | 1.5% | 1.5% | 1.5% | 1.5% |
| Bad Debt Rates | 0.95% | 0.95% | 0.95% | 0.95% | 0.95% |
| Interest Rates on Borrowing | 5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Opening Stock Numbers | 18,594 | 18,083 | 17,828 | 17,743 | 17,683 |
| Right to Buy Sales | 115 | 115 | 115 | 115 | 115 |

| Area of Business Plan | Comments | Assumptions | Risk |
|---|---|---|---|
| **Stock Numbers** | The number of dwellings drives the level of income and costs which vary with the number of properties. This includes right to buy numbers, demolitions, remodelling of stock and new developments. | Proposed numbers are as outlined in table 1 above. | There is a risk that the number of successful right to buy applications increase and or there are barriers to new development resulting in a variation to the stock base. Any variation will impact both income and costs. |
| **Inflation CPI/RPI** | Inflation rates have significantly increased, particularly for 2023/24. Recent ONS announced (19 October) shows current CPI at 10.1% and RPI at 12.6%. OBR forecasts for future years predict CPI at 4.1% for 2023/24 and average 2% over future years. RPI at 5.6% for 2023/24 and average 3% over future years | CPI and RPI rates have been taken for each year as shown in table 1 above. | Hyper-inflation has exacerbated the uncertainties of accurate modelling but is the most accurate in line with current information. OBR are the best estimates to hand however this will be kept under review. CPI impacts on both costs and income. |
| **Minimum Working Balance** | The HRA has an agreed minimum balance requirement to ensure there is adequate reserves cover. | £3m assumed throughout the plan | There is a risk that this is insufficient and there are unforeseen events that cannot be met. |
| **Salary Increases (Pay award)** | This cost pressure relates to the cost of pay award agreed for employees of the Council as well as agreed pay increments. Local Authority pay awards are determined through the national bargaining process rather than being mandated by Government. However, the messaging and government resource allocations for the future are likely to influence that national bargaining process. Current Pay offer estimates additional costs of around 5.7% or £1.5m. | Pending a formal offer, and for planning purposes it is assumed that the pay awards will be 1.75% (£0.5m in 2023/24 after impact of 2022/23 pay award estimate) across each year. | Pay increases which are agreed could be much higher than expected. This is unknown given current pay offer and cost of living.<br><br>Alternative scenarios can be run regarding pay. There may be some cross over with the job evaluation cost pressure. |
| **Revenue Repairs** | There is a backlog of repairs amounting to £3m which has been added to 2022/23. Assumed current overspend is reduced within budget and £0.5m of the additional investment for void backlog works is removed. | Inflation assumption using RPI. | There is a risk that the number of voids and turnover rate does not enable the £0.5m to be removed. There is also a balance between void loss and cost of repairs and timing of major estate works. |

| Area of Business Plan | Comments | Assumptions | Risk |
|---|---|---|---|
| **Rent Increases** | Rent policy is CPI + 1% but the Autumn Statement confirmed a upper limit of 7% on rent increases for 2023/24 | Assumes 7% rent increase on all stock for 2023/24 reverting to rent policy for thereafter. | A 1% variation on the rental increase would result in £3.950m less income over the medium term and £27.9m over 30 years. This in turn would bring borrowing forward by 1 year and by year 30 it would need to rise by a further £51m. |
| **Service Charge Increases** | Charges are based on full cost recovery however impact assessments are completed and stepped charges applied where appropriate. Service charge increase should be broadly comparable to rent increases although this does not preclude full cost recovery. | For the purposes of financial modelling charges have been increased by CPI as currently we operate on a full cost recovery model. | Actual costs may be far higher than charges modelled which could result in a disparity between income and expenditure. |
| **Void Rates** | Void rates vary depending upon the stock and within the plan for modelling purposes the stock has been divided to enable different void rates to be applied. This is most important for those subject to demolition or remodelling where void rates will increase as they are decanted. | Void rates used in the plan are outlined in table 1 above. The current void loss is 2.94% against a budget of 2.5% | There is a risk that void rates increase in areas where properties are more difficult to let and this will impact the level of income. |
| **Bad Debt Rate** | This is the value of the increase required to maintain the bad debt provision at an adequate level. Increasing current debt will have little impact as the debt profiling increases the risk of it becoming uncollectable with age. | Bad debt rates used in the plan are outlined in table 1 above. The 2021/22 actual was 0.86% | Income collection rates decrease but there is a lag in the impact on the provision due to the methodology used in maintaining the provision. |
| **Other Income** | Non dwelling rents such as garages have experienced a reduction in demand and for the purposes of financial modelling have been maintained at the current budget for the life of the plan. The stock loss over the plan does not directly vary other income so this has been managed through inflation | Non dwelling rent not inflated and Water Commission RPI to 2027/28 but no further inflation applied due to reduction in stock so assumed a level of offset. | Positive risk that non dwelling rents can be increased without impacting demand. |

| Area of Business Plan | Comments | Assumptions | Risk |
|---|---|---|---|
| **Capital Receipts** | The income from right to buy receipts can be used to fund redevelopment. There is an accumulated reserve of £12.6m which is estimated to be used over the next 5 years. Receipts received in year will be used to fund the capital programme except from 2025/26 the Council will begin to accrue 1-4-1 receipts which must be used for new homes and cannot be combined with grant. Based on the current policy if not used these need to be repaid. Given development is assumed to attract grant the receipts are estimated to begin to be repaid in 2030/31 but this will be kept under review. | Current average RTB value £89,283 (2021/22). Projected to be fairly constant over the next 5 years and then a slight increase at CPI. | The sales are higher or lower than modelled which could impact the amount available to fund the capital programme |
| **Homes England Grant Funding** | It is assumed new developments will attract funding The Council has a good track recorded of securing Homes England Funding. | £35,000 per property assumed over the 400 units | There is a lower value of grant awarded however 1-4-1 right to buy receipts could instead be applied. There may need to be a conscious decision to not bid for grant and utilise the receipts. |
| **Major Works** | The HRA capital programme is reflective of the agreed 2022/23 – 2026/27 and thereafter with adjustments made to reflect the slippage at Q2. | Based on stock condition survey and rise with RPI with the exception of aids and adaptations and fees which are cash limited. | There is a risk that costs rise above inflation but the latest forecast have been used in the plan. |
| **Depreciation** | Depreciation is a real cost in the HRA and is used to fund major repairs (capital). In 2022/23 the amount needed to fund the programme based on the original assumptions regarding capital receipts is £1.9m lower than originally budgeted but the charge to the HRA increased in 2021/22 which increased the estimated 2022/23 value and this must be charged to the HRA and set aside for capital expenditure. | Charged in line with actual 2021/22 and uplifted for RPI – restricted to 3% for 2023/24 and 2024/25 despite higher projections for RPI. | There is a risk that the depreciation charge is higher than modelled in the plan which would have an impact on the HRA balances as use of receipts would need to reduce, this will need to be kept under review. Undertaking an annual review will assist in mitigating this risk. |

| Area of Business Plan | Comments | Assumptions | Risk |
|---|---|---|---|
| **Interest rates on Borrowing** | The recent increase in the Bank of England base rates has resulted in interest rates overall increasing. The current rate is 2.25% compared to 0.1% this time last year. | Interest rates for new borrowing for 2022/23 are estimated at 5.5%, 5% 2023/24 and 4.5% thereafter. | There is a risk interest rates increase further however there could be a positive risk of rates reducing for new borrowing. |
| **HRA Debt** | The opening HRA CFR is £345,505m. Each HRA loan is separately identified and debt profiled based on known interest rates. It is assumed that when debt matures it is refinanced. | The level of additional debt accrued over the 30 year plan is dependent upon the rent scenario. | |

## 6. Risk Assessment

6.1 A comprehensive financial risk assessment has been undertaken to ensure that all risks and uncertainties affecting the council's HRA financial position are identified. These will be reviewed each year as part of the refresh of the HRA Business Plan. The key strategic financial risks to be considered are as follows:

| Risk | Risk Management | Likelihood | Impact |
|---|---|---|---|
| **Inflation (Negative Risk)**<br>Rent increases linked to CPI with the majority of other costs linked to RPI. | HRA Balances are risk assessed and budget contingency built into the annual cost to ensure variations inflation rates can be managed.<br>Service Charges based on actual cost recovery. | Moderate | Medium |
| **Interest rate increases (Negative Risk)**<br>The impact on the cost of borrowing and therefore assessment of affordability of the capital programme**.** | Interest rates in the plan have been forecast to increase over the medium term assuming they will not stay at the current low rates. | Moderate | Medium |
| **Rent and Service Charges (Negative Risk)**<br>The Government could impose further limits on rent increases beyond 2023/24. Service charges may not be fully recovered. | Lower than anticipated rent increases would require reductions in spending plans within the plan and need to reassess the assumptions.<br>Service charge costs are forecast based on current actual costs any increase above the forecast would be considered in the following year with the same applying if there are reductions. | Unlikely | High |

| Risk | Risk Management | Likelihood | Impact |
|---|---|---|---|
| **Stock Investment (Negative Risk)**<br>Investment needs exceed planned expenditure due to unforeseen investment requirements or changes to the prescribed standards. | HRA Asset Management Strategy to be considered alongside this plan. The investment plan is based upon stock condition information. Stock viability assessments are undertaken. There is additional coverage in the plan to deal with cost increases or additional expectations. | Moderate | High |
| **Right to Buy Sales (Negative/Positive Risk)**<br>External factors mean that RTB sales in terms of numbers or value are either higher or lower than forecast without a corresponding change to stock through acquisition or new build. | RTB assumptions are adjusted annually based on the prior year trend. There is a tapering assumption built into the plan.<br>The new build in the plan is not a direct replacement for the RTB sales and therefore it is unlikely plans would be altered dependent on the RTB sales. | Moderate | Low |
| **Anticipated Savings/ efficiencies are not achieved (Negative Risk)**<br>The plan includes efficiency savings required to ensure investment plans are sustainable. | Regular monitoring and reporting takes place. The cumulative impact over the medium term may make savings in the later years more challenging.<br>Non achievement of savings/efficiencies will require a reassessment of investment priorities. | Moderate | High |
| **Welfare Reform (Negative Risk)**<br>Tenants and leaseholders impacted by welfare changes have insufficient income to pay the rent/service charges.<br>There could also be an increase in the need for Council housing services. | The impact of welfare reform continues to be planned for and monitored through the Council Scrutiny Framework. | Likely | Medium |
| **Legislative Change (Negative Risk)**<br>New legislation/regulation is introduced which results in increased financial pressures**.** | Ongoing tracking and horizon scanning in relation to emerging policy and legislation and an annual review through the business plan updated. | Moderate | High |
| **Brexit (Negative Risk)**<br>The impact of Brexit has created economic instability the impact of which could lead to additional cost pressures either directly or indirectly. | Continue to work collaboratively with treasury advisors to assess potential budget impacts whilst the Government attempts to ensure an effective transition to a new economic relationship between the U.K. and the EU, including clarifying the procedures and broad objectives that will guide the process. | Likely | Medium/<br>High |

## 7. Conclusion

7.1 The revised HRA business plan together with the HRA Asset Management Strategy ensure that the HRA investment plans are sustainable over the medium and longer term. This plan confirms the priority given to ensuring the Council's homes are safe and fully compliant with building legislation and regulation and will make a significant contribution to the Residential Growth Strategy with a planned HRA funded development programme of 400 new homes over the next 10 years.

7.2 Despite this there are still challenges within this plan and assumptions made regarding future costs that will need to be kept under constant review. Savings outlined in the plan will need to be delivered to ensure the sustainability of the HRA and therefore robust savings plans will be developed to underpin their delivery.

## Appendix 1

# HRA Operating Account 30 Years

| Year | Year | Rental Income | Service Charge Income | Void Losses | Non-Dwelling Rents | Charges For Services | Other Income | **Total Income** | Supervision and Management | Repairs and Maintenance | Depreciation | Debt Mgmt Expenses | Bad Debts | **Total Expenditure** | **Net Cost of HRA Services** | Interest Charges | **Surplus / (Deficit) in Year on HRA Services** | Revenue Contributions to Capital | **Surplus / (Deficit) for the Year** | **HRA Reserve Opening Balance** | **HRA Reserve Closing Balance** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** | **£'000** | £'000 | **£'000** | £'000 | **£'000** | **£'000** | **£'000** |
| 1 | 2022/23 | 78,511 | 2,512 | -3,267 | 1,345 | 2,291 | 977 | **82,370** | -31,273 | -30,117 | -16,600 | -73 | -768 | **-76,231** | **6,138** | -12,100 | **-5,962** | -0 | **-5,962** | **26,160** | **20,198** |
| 2 | 2023/24 | 82,775 | 2,586 | -2,668 | 1,345 | 2,566 | 1,094 | **87,698** | -29,487 | -26,112 | -17,019 | -78 | -809 | **-73,506** | **14,192** | -12,266 | **1,926** | -12,966 | **-11,040** | **20,198** | **9,158** |
| 3 | 2024/25 | 86,567 | 2,565 | -1,743 | 1,345 | 2,694 | 1,149 | **92,578** | -28,789 | -25,987 | -17,048 | -82 | -845 | **-72,751** | **19,826** | -12,528 | **7,299** | -8,216 | **-918** | **9,158** | **8,240** |
| 4 | 2025/26 | 86,075 | 2,539 | -1,645 | 1,345 | 2,775 | 1,183 | **92,273** | -28,984 | -25,768 | -17,124 | -85 | -840 | **-72,801** | **19,472** | -12,687 | **6,785** | -3,227 | **3,558** | **8,240** | **11,798** |
| 5 | 2026/27 | 87,292 | 2,548 | -1,476 | 1,345 | 2,858 | 1,219 | **93,786** | -28,691 | -25,680 | -17,145 | -87 | -852 | **-72,456** | **21,331** | -12,849 | **8,481** | -7,707 | **774** | **11,798** | **12,572** |
| 6 | 2027/28 | 88,743 | 2,581 | -1,462 | 1,345 | 2,796 | 1,219 | **95,221** | -28,425 | -26,191 | -17,234 | -90 | -866 | **-72,807** | **22,415** | -12,891 | **9,524** | -9,249 | **275** | **12,572** | **12,848** |
| 7 | 2028/29 | 90,231 | 2,620 | -1,716 | 1,345 | 2,880 | 1,219 | **96,579** | -28,832 | -26,737 | -17,348 | -93 | -880 | **-73,889** | **22,690** | -13,110 | **9,579** | -12,989 | **-3,410** | **12,848** | **9,438** |
| 8 | 2029/30 | 91,695 | 2,660 | -2,111 | 1,345 | 2,966 | 1,219 | **97,774** | -29,246 | -27,294 | -17,447 | -95 | -895 | **-74,977** | **22,798** | -13,167 | **9,631** | -15,795 | **-6,164** | **9,438** | **3,274** |
| 9 | 2030/31 | 95,082 | 2,756 | -1,808 | 1,345 | 3,055 | 1,219 | **101,649** | -29,668 | -27,869 | -17,546 | -98 | -928 | **-76,110** | **25,539** | -13,245 | **12,294** | -12,568 | **-274** | **3,274** | **3,000** |
| 10 | 2031/32 | 94,811 | 2,745 | -1,497 | 1,345 | 3,147 | 1,219 | **101,770** | -30,093 | -28,464 | -17,661 | -101 | -925 | **-77,244** | **24,526** | -13,346 | **11,180** | -11,180 | **0** | **3,000** | **3,000** |
| 11 | 2032/33 | 96,429 | 2,789 | -1,521 | 1,345 | 3,241 | 1,219 | **103,501** | -30,528 | -29,071 | -17,776 | -104 | -941 | **-78,420** | **25,081** | -13,533 | **11,548** | -9,150 | **2,397** | **3,000** | **5,397** |
| 12 | 2033/34 | 97,934 | 2,833 | -1,544 | 1,345 | 3,338 | 1,219 | **105,125** | -30,969 | -29,693 | -17,892 | -107 | -955 | **-79,617** | **25,508** | -13,599 | **11,909** | -13,306 | **-1,397** | **5,397** | **4,000** |
| 13 | 2034/35 | 99,320 | 2,878 | -1,566 | 1,345 | 3,438 | 1,219 | **106,634** | -31,418 | -30,329 | -17,967 | -111 | -969 | **-80,793** | **25,841** | -13,848 | **11,992** | -12,992 | **-1,000** | **4,000** | **3,000** |
| 14 | 2035/36 | 102,733 | 2,982 | -1,620 | 1,345 | 3,542 | 1,219 | **110,200** | -31,877 | -30,979 | -18,042 | -114 | -1,002 | **-82,013** | **28,187** | -14,109 | **14,078** | -14,078 | **0** | **3,000** | **3,000** |
| 15 | 2036/37 | 102,141 | 2,970 | -1,611 | 1,345 | 3,648 | 1,219 | **109,711** | -32,338 | -31,644 | -18,116 | -117 | -997 | **-83,212** | **26,499** | -14,356 | **12,144** | -12,144 | **0** | **3,000** | **3,000** |
| 16 | 2037/38 | 103,576 | 3,017 | -1,634 | 1,345 | 3,757 | 1,219 | **111,280** | -32,809 | -32,324 | -18,190 | -121 | -1,011 | **-84,455** | **26,825** | -14,676 | **12,149** | -12,149 | **0** | **3,000** | **3,000** |
| 17 | 2038/39 | 105,027 | 3,065 | -1,657 | 1,345 | 3,870 | 1,219 | **112,868** | -33,288 | -33,020 | -18,263 | -125 | -1,025 | **-85,721** | **27,147** | -15,036 | **12,111** | -12,111 | **0** | **3,000** | **3,000** |
| 18 | 2039/40 | 106,495 | 3,113 | -1,681 | 1,345 | 3,986 | 1,219 | **114,478** | -33,775 | -33,732 | -18,336 | -128 | -1,039 | **-87,012** | **27,466** | -15,464 | **12,002** | -12,002 | **0** | **3,000** | **3,000** |
| 19 | 2040/41 | 108,061 | 3,164 | -1,706 | 1,345 | 4,106 | 1,219 | **116,189** | -34,271 | -34,473 | -18,409 | -132 | -1,054 | **-88,339** | **27,850** | -15,915 | **11,935** | -11,935 | **0** | **3,000** | **3,000** |
| 20 | 2041/42 | 111,919 | 3,282 | -1,767 | 1,345 | 4,229 | 1,219 | **120,227** | -34,777 | -35,243 | -18,510 | -136 | -1,092 | **-89,757** | **30,470** | -16,322 | **14,148** | -14,148 | **0** | **3,000** | **3,000** |
| 21 | 2042/43 | 111,420 | 3,272 | -1,759 | 1,345 | 4,356 | 1,219 | **119,853** | -35,286 | -36,031 | -18,610 | -140 | -1,087 | **-91,154** | **28,698** | -16,757 | **11,941** | -11,941 | **0** | **3,000** | **3,000** |
| 22 | 2043/44 | 113,135 | 3,328 | -1,786 | 1,345 | 4,486 | 1,219 | **121,726** | -35,806 | -36,839 | -18,711 | -144 | -1,104 | **-92,603** | **29,123** | -17,232 | **11,891** | -11,891 | **0** | **3,000** | **3,000** |
| 23 | 2044/45 | 114,874 | 3,384 | -1,814 | 1,345 | 4,621 | 1,219 | **123,629** | -36,334 | -37,665 | -18,812 | -149 | -1,121 | **-94,081** | **29,548** | -17,744 | **11,804** | -11,804 | **0** | **3,000** | **3,000** |
| 24 | 2045/46 | 116,637 | 3,442 | -1,842 | 1,345 | 4,760 | 1,219 | **125,560** | -36,872 | -38,512 | -18,913 | -153 | -1,138 | **-95,588** | **29,972** | -18,324 | **11,648** | -11,648 | **0** | **3,000** | **3,000** |
| 25 | 2046/47 | 118,425 | 3,500 | -1,871 | 1,345 | 4,902 | 1,219 | **127,520** | -37,419 | -39,378 | -19,014 | -158 | -1,156 | **-97,124** | **30,396** | -18,975 | **11,421** | -11,421 | **0** | **3,000** | **3,000** |
| 26 | 2047/48 | 122,638 | 3,630 | -1,938 | 1,345 | 5,049 | 1,219 | **131,944** | -37,978 | -40,266 | -19,115 | -162 | -1,197 | **-98,718** | **33,226** | -19,649 | **13,577** | -13,577 | **0** | **3,000** | **3,000** |
| 27 | 2048/49 | 122,076 | 3,619 | -1,929 | 1,345 | 5,201 | 1,219 | **131,531** | -38,539 | -41,174 | -19,216 | -167 | -1,192 | **-100,289** | **31,242** | -20,352 | **10,891** | -10,891 | **0** | **3,000** | **3,000** |
| 28 | 2049/50 | 123,939 | 3,681 | -1,959 | 1,345 | 5,357 | 1,219 | **133,582** | -39,113 | -42,105 | -19,318 | -172 | -1,210 | **-101,918** | **31,664** | -21,356 | **10,307** | -10,307 | **0** | **3,000** | **3,000** |
| 29 | 2050/51 | 126,123 | 3,749 | -1,993 | 1,345 | 5,518 | 1,219 | **135,960** | -39,697 | -43,104 | -19,419 | -178 | -1,231 | **-103,629** | **32,331** | -23,702 | **8,630** | -8,630 | **0** | **3,000** | **3,000** |
| 30 | 2051/52 | 128,645 | 3,826 | -2,033 | 1,345 | 5,683 | 1,219 | **138,685** | -40,291 | -44,176 | -19,614 | -183 | -1,256 | **-105,519** | **33,167** | -25,248 | **7,919** | -7,919 | **0** | **3,000** | **3,000** |

# Appendix 2

| Housing Capital | Description | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | Total |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Improvement Works** | | | | | | | |
| Aids & Adaptations | To carry out identified adaptations to Council Dwellings to enable people to live safely and independently within their home. | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | **7,500** |
| Communal Mechanical & Electrical works | Essential works to upgrade communal services in accordance with stock condition, building safety & compliance needs. | 579 | 612 | 618 | 679 | 647 | **3,134** |
| Digital Transformation | Transformational upgrade work to block building management services such as CCTV and door entry services | 700 | 702 | 700 | 804 | 800 | **3,706** |
| Environmental & Estate Improvement | Improvements to the public realm in and round estates | 100 | 103 | 100 | 768 | 799 | **1,870** |
| Garage Improvement Programme | Essential works to improve sustainable garage blocks, demolish unviable stock and investigation conversion & change of use where practicable | 200 | 200 | 220 | 340 | 300 | **1,260** |
| Block communal improvements | Improvements to the communal areas and spaces in blocks | 705 | 743 | 762 | 874 | 809 | **3,892** |
| **Building Safety** | | | | | | | |
| Building safety improvements | Essential work to meet building safety and compliance obligations | 790 | 877 | 827 | 250 | 200 | **2,945** |
| Safety & Security | Work to install and renew smoke and CO detection. | 60 | 73 | 74 | 101 | 103 | **411** |
| HRA Commercial Property Improvements | Targeted interventions in the HRA commercial portfolio to meet landlord obligations | 50 | 50 | 50 | 50 | 10 | **210** |
| **Major Future Works** | | | | | | | |
| Energy & Carbon Net Zero | Delivery of work packages to improve insulation, install green technology and energy solutions that will support achieving Net Zero. | 0 | 0 | 0 | 5,194 | 5,350 | **10,545** |
| Major Investment Scheme | Targeted Transformation investment work | 1,970 | 0 | 0 | 0 | 0 | **1,970** |
| Domestic Heating Improvements | Replacement of failed and obsolete heating systems, upgrading them with more efficient solutions to help address fuel poverty issues. | 2,604 | 2,716 | 2,779 | 2,902 | 2,910 | **13,911** |
| Door & Window replacements | Continuation of the window replacement door replacement programme. Focused on medium rise blocks, but also picking up 'one off' whole house replacements | 797 | 1,037 | 865 | 380 | 389 | **3,468** |
| Decent Homes | Continuation of planned estate-based improvement work to the Council's housing stock in accordance with decent homes and building safety principles, prioritised using stock condition data. | 5,352 | 5,947 | 6,578 | 7,097 | 8,936 | **33,910** |
| Contractual Obligations | Preliminary costs associated with schemes | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | **10,000** |
| Fixed Budget Fees | Continuation of the rolling programme of condition surveys to enable effective asset management, options appraisals and the development of future investment schemes. | 550 | 550 | 550 | 550 | 550 | **2,750** |
| **Expectational Works** | | | | | | | |
| Regeneration and Demolition | Delivery of option appraisal outcomes - acquisition / conversion / demolition of unsustainable HRA assets. | 11,800 | 5,807 | 2,744 | 622 | 0 | **20,973** |
| **Housing Developments** | | | | | | | |
| New Build/Acquisition - Various | Investment to create new Council homes. | 10,343 | 10,343 | 8,392 | 9,231 | 6,714 | **45,023** |
| **Total Budget from BP data** | | **40,099** | **33,260** | **28,759** | **33,341** | **32,017** | **167,477** |