City of
Stoke-on-Trent

Stoke-on-Trent City Council

HRA 30 Year Business Plan 2022

Housing Revenue Account Services

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FOREWORD

Welcome to Stoke-on-Trent City Council's Housing Revenue Account (HRA) 30-year Business Plan.

I am pleased to introduce our updated HRA Business Plan that sets out how we will use the HRA resources to invest in existing homes to ensure they are well managed, kept to a decent standard, modernised and fulfil our ambitions to build new homes that offer a range of good quality affordable social housing for residents living in the city.

This is an ambitious plan that continues to build on the success of the previous plan in providing and improving services for tenants, and in so doing will deliver a range of benefits to Stoke-on-Trent residents and communities as a whole. Whilst the HRA Business Plan is for 30 years, more focus will be on the first 5 years, as we will need to consider the impacts and challenges from previous national policies and newly emerging national policies, such as the Government's Social Housing White Paper and the building and fire safety agenda – all this as we move on to live with the challenges of Covid-19.

As we recover from the pandemic, our focus now is to continue to manage and maintain our existing housing stock, making it safe and ensuring all properties meet the most current quality standards. We are also committed to dealing with housing stock that has been identified as obsolete through no longer being suitable to meet modern day housing needs and becoming uneconomical to improve or maintain any further.

Meeting the demand for social housing in the city is a priority of this plan, particularly for older people, single people and those requiring supported accommodation. This plan sets out our aspirations to build new council housing of the types required and focusses on building quality rather than quantity. The new build programme not only supports the need to develop social housing, but will also support healthy neighbourhoods and communities via mixed use developments and assisting us in growing the city's economy.

The success and delivery of this ambitious plan will require tenants, leaseholders and residents to be actively involved and we will ensure there are a variety of ways for you to be able to engage and work with us to achieve our business plan priorities.

Councillor Carl Edwards
Cabinet Member for Housing and Environment

1 OVERVIEW

A lot has changed since we last published our Housing Revenue Account (HRA) Business Plan in 2017.

That plan was predicated on self-financing, a change to local authority housing finance that allowed us to keep all of the money raised from rents to deliver services to our customers and improve the quality of the homes that we provide. Importantly the business plan was also updated to reflect the Stronger Together vision – working together to create a stronger city we can all be proud of.

The Business Plan provides direction and sets out our priorities and the resources available to deliver them over the next 30 years. It has been reviewed at a time when other key strategic documents are also undergoing review, being consistent with our newly approved Housing Strategy 2022-27 which sets out our priorities to meet housing need across all tenures, together with our new draft HRA Asset Management Strategy 2022-27 to ensure that we continue to provide high quality homes in thriving communities both now and in the future.

There have been positive impacts on HRA finance since 2017, including:

- Removal of a cap that restricted how much the HRA could borrow to pay for investment in our existing housing or to provide new homes;
- After a four-year period of compulsory rent reductions, the latest government policy is that rents should increase each year by Consumer Prices Index (CPI) inflation + 1% until April 2024/25;
- Rules about the use of money from Right to Buy (RTB) sales have changed so that receipts can now finance up to 40% of the cost of replacement homes; and
- Proposals for a levy on high value vacant homes which would have increased costs for the HRA have been withdrawn.

In addition to these changes, the Government's housing policy continues to evolve. The social housing white paper "The Charter for Social Housing Residents" published in November 2020 aims to strengthen regulatory consumer standards so that tenant voices are heard and to ensure that social landlords provide high quality homes that are safe places to live. This will involve a Government review of the decent homes standard which could have cost implications for the HRA in the future. We will also need to rise to the challenge of complying with the decarbonisation agenda in the coming years to meet the Governments net zero emissions target by 2050.

Since the last Plan was published we have also left the European Union and our lives have been profoundly affected by the COVID-19 pandemic. We do not yet know what the longer-term implications of these might be for service delivery, but we are aware of the potential risks and are putting plans in place to manage them effectively.

The Plan provides a baseline position, showing what can be delivered with the money currently forecast to be available to the HRA over the period of the Plan. Our main focus will be to invest in our existing homes and replace our stock with new homes. The new homes that we provide will be demand led and focus on quality of provision rather than quantity. Discussions with tenants and leaseholders will help us to decide how best to prioritise HRA spending going forward.

We aim to ensure that our residents can live as independently as possible for as long as possible. With that in mind, when we deliver new homes in the HRA our emphasis will be on providing new older people's housing and supported housing. We understand that to encourage people to move from larger homes, where they may struggle to live independently, we need to provide homes that meet their needs in terms of quality, affordability and location.

Our plan to improve our existing homes, remodel estates and regenerate communities will always be limited by the resources we have available. Even with the welcome changes to HRA finances this will inevitably require more money than is currently forecast to be available in the HRA. Therefore, we will continue to explore options to provide more money for these purposes and to ensure that the investments we make provide positive outcomes and represent value for money.

In very broad terms, we currently

have just over **17,700** council homes

over **1,100** garages, and garage plots

41 shops

a portfolio of land

generate an income of around **£69.052m** most of which is received from the rent that tenants pay

The largest single item of expenditure, over

1/3 is on the maintenance of our council homes

HRA capital investment includes spending on planned maintenance; major works like new roofs, kitchens and bathrooms and other improvements like the installation of more energy efficient heating systems or environmental improvements. It also includes the costs of new homes provided in the HRA.

To pay for the planned capital investment into new and existing council housing we are able to apply our useable HRA reserves, although we plan to maintain reserves of at least £4.6m as a working balance to cover any unforeseen circumstances. Useable reserves include the Major Repairs Reserve which holds the depreciation charged on HRA assets and can be used to either finance HRA capital spending or to repay HRA debt. Right to Buy receipts are also used to help finance the HRA capital programme, although some of these receipts can only be used to finance new homes to replace those that have been sold. Borrowing, which is no longer capped, can also be used to finance the capital programme providing that it is affordable and complies with the Prudential Code for Capital Finance in Local Authorities. Any borrowing for the HRA capital programme will be serviced through the HRA and will not impact upon the General Fund.

The Plan is based upon financial modelling to ensure the HRA is sustainable over the next 30 years so that there will be enough money to pay all the costs of the business. The financial modelling is based on a set of assumptions about factors including: the amount of rent received, the number of properties that will become empty, the number of properties that are likely to be sold under Right to Buy and the cost of repairs and maintenance, planned works and housing management.

The outcome of the modelling is that, based on current assumptions, the HRA business is sustainable for the coming 30 year period and existing homes can be managed and maintained to a good standard for the duration of the plan.

The financial model has also been subject to sensitivity analysis to show what might happen if the assumptions change. There are potential shortfalls at certain points in the planning period, but we will make sure these shortfalls do not happen by carefully timing our planned works to make sure that spending plans match the funding available.

In addition to managing and maintaining our current homes effectively, we want to build new ones to meet the current and future housing needs. In January, 2020, the council approved plans to borrow an additional £125 million to provide 1,370 new homes. The emphasis for these new builds will be on accommodation where there has been an identified need in the city, which includes the provision of new older people's housing, supported housing and smaller one-bedroom homes for single people.

After allowing for properties that have already been delivered, the Plan includes the cost of 1,241 new homes over the next 10 years (2021/22 to 2030/31). The total cost of these new homes is expected to be £190.5 million financed from Right To Buy receipts and Homes England grant of £51.6 million, along with additional borrowing of £138.9 million.

Over the same 10 year period we expect to lose 1,586 homes through Right to Buy. Over the life of the 30 year plan we will lose 3,192 homes, meaning that the number of homes that we provide is likely to fall by around 18% over 30 years after taking into account the new homes to be delivered.

Council housing represents one of the local authority's major assets. Managing and maintaining our council housing to a good standard and, importantly, investing in its longer term sustainability, contributes markedly to the provision of appropriate, high quality, affordable homes for people of all ages and at all stages of life. It is widely recognised that housing condition is a key factor in influencing people's health and well-being, people's ability to live safely and independently and people's life chances, including, for example as they relate to educational attainment and employment. The provision of a supply of good quality council housing also helps the council to fulfil its obligations in relation to addressing housing need and preventing homelessness.

Our plan is to build a further 1,241 new homes over the next 10 years, which will both help to replace homes lost through Right to Buy and increase the number of homes particularly for those in need of supported housing. We also want to invest in remodelling our estates, to improve existing council housing and council estates, impacting on around 9,000 homes.

Importantly, we want to make sure that these new and remodelled homes and estates meet current and future housing requirements.

In addition to the benefits already referenced in relation to having a supply of good quality council housing, new housing provision will bring financial benefits to the council and to the economy of the city through, for example, increased rental income into the HRA, New Homes Bonus (circa £305k for every 200 new homes, rising to circa £1.523m for every 1,000 new homes) and council tax income (circa £187k for every 200 new homes, rising to circa £934.5k for every 1,000 new homes) and by stimulating employment opportunities (2.4 jobs for every home built).

We will continue to explore opportunities to make more money available to the HRA so that we can deliver more investment through it. We will also continue to lobby Government directly, and through the Local Government Association, to allow for greater flexibility in the use of resources. In addition, we will continue to explore alternative potential funding sources such as grant funding and other forms of investment.

The Plan will be reviewed on an annual basis and new opportunities will be built in accordingly.

2 VISION, PRIORITIES AND OBJECTIVES

STRONGER TOGETHER

Working together to create a stronger city we can all be proud of

The Stronger Together Strategic Plan 2020–24 sets out the strategic vision and priorities for Stoke-on-Trent City Council and the wider city. The Housing Revenue Account Business Plan will contribute to the achievement of that vision of working together to create a stronger city we can all be proud of:

- An innovative and commercial council providing effective leadership to help transform outcomes.
- Support Vulnerable people in our communities to live their lives well.
- Enable our residents to fulfil their potential – improve the quality and supply of housing in the city.
- Work with our communities to make them healthier, safer and more sustainable
- An innovative and commercial council – deliver a financially sustainable service which demonstrates value for money

Council housing represents one of the council's major assets. Managing and maintaining our council housing to a good standard and, importantly, investing in its longer term sustainability, contributes markedly to the provision of appropriate, high quality, affordable homes for people of all ages and at all stages of life.

This contribution will be further enhanced by replacing housing lost through Right to Buy and by increasing the number of council homes. It is widely recognised that housing condition is a key factor in influencing people's health and well-being, people's ability to live safely and independently and people's life chances, including, for example as they relate to educational attainment and employment. The provision of a supply of good quality council housing also helps the council to fulfil its obligations in relation to addressing housing need and preventing homelessness.

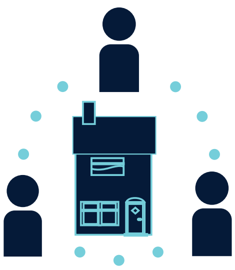
Importantly, new housing provision will bring financial benefits to the council and the city and will have a positive impact on the city's economy, by way of example, in addition to increased rental income in to the HRA, there are wider benefits[1]:

For every

200 new homes delivered

the council will receive circa **£305k** of New Homes Bonus from the Government, rising to circa **£1.523m** for every 1,000 new homes delivered

which will generate additional council tax income of circa **£187k** rising to circa **£934.5k** for every 1,000 new homes delivered



Every home built creates **2.4 jobs** (source LGA)

£1m spent on new housing provides work for **20 workers** for a year (source CLG)

4 direct construction job creates another in the supply chain (source CLG)

[1]Ministry for Housing, Communities and Local Government quoted in the council's Strategic Housing Investment Plan report January 2020

THE BUSINESS PLAN

Priorities

The Plan underpins the delivery of the city's HRA Asset Management Strategy, ensuring that there is sufficient money available for us to manage council homes efficiently and enables us to build new council homes in the city. Our Plan is designed to help to deliver the city's new Housing Strategy, with three high level priorities: driving economic success and widening housing choice, increasing owner occupation, and enabling independence. It also contributes to the delivery of the policy objectives included in a number of other key strategies like the HRA Renewable Energy Strategy, the Fuel Poverty Strategy and the Older People's Housing and Accommodation Strategy.

This being the case the priorities of the Plan remain as follows:

- **To provide safe, well maintained and well managed council homes;**
- **To improve the quality of our homes to meet modern standards and increase energy efficiency;**
- **To help to make it possible for people to access and enjoy living independently in their homes;**
- **To develop high quality new homes to meet the needs of our residents in all of our communities across the City;**
- **To improve the quality of the environment to make our communities better places to live.**

Objectives

Our key objective is to deliver as much as we can through the HRA to maintain and manage council housing well, to improve existing council homes and council estates and to build new council homes, particularly for older persons, single persons and those in need of supported housing. In managing the plan, we will:

- **Ensure that rents and other resources are enough to pay for our service plans and to invest in our homes;**
- **Borrow at a level that it is affordable and can be repaid;**
- **Understand the risks faced by the HRA so that we can manage risk effectively and plan ahead to deal with risks that materialise;**
- **Explore other ways of making more money available to the HRA;**
- **Explore ways of making efficiencies and ensuring value for money;**
- **Ensure that the HRA remains financially viable now and into the future.**

Approach and Values

To work toward the priorities and objectives of the Plan, we have embraced a 'one council, one vision, one team' approach to ensure that we deliver the best possible outcomes for our residents and the city. Rooted in the Stronger Together Plan, this will be guided by five main values which are at the heart of the HRA business: ownership, ambition, involvement, respect and working with others. Of critical importance to us is our relationship with our customers, getting tenants and leaseholders involved and working with them and others to improve services.

Working with Our Tenants and Leaseholders

We actively encourage our tenants and leaseholders to be involved in shaping and informing the way we deliver our services, and this is something we are keen to improve upon so that the customer voice can truly hold us to account. Over 2020/21 we have been reviewing our resident involvement structures and are undertaking consultation on a new model of engagement set out in our Housing Customer Engagement Strategy, which will enable existing and prospective tenants and leaseholders to get involved through different levels of commitment dependent on their time:

- Level 1: occasional surveys and occasional one-off conversations;
- Level 2: frequent surveys and occasional meetings with customers and staff;
- Level 3: being part of a virtual meeting (approximately six times a year) and have conversations with other customers, staff and Elected Members to question and bring ideas.

As we implement this Business Plan, we will continue to engage with our tenants and leaseholders through the proposed governance structure to ensure that we deliver excellent service and value for money.

3 LOCAL CONTEXT

Population and Household Size

The city's population has continued to grow steadily over the last decade, increasing by more than 9,000 people to 256,622 and it is projected to grow to almost 273,000 by the mid 2040's. Household numbers are also forecast to increase by more than 8,000 to almost 120,000 meaning more homes will be required in the city.

Population growth in the city has occurred as a result of high birth rates, a reduction in mortality and an increase in life expectancy. International migration to the city has continued at c.1,000 persons per year equivalent to the level of domestic out-migration from the city to other parts of the UK. Average household size continues to fall in-line with regional and national trends as levels of single occupancy continue to increase.

Our Housing Strategy recognises that there is an imbalance between the demand for housing and the availability of housing. This means that as households evolve - from a single person to a couple, a young to then growing family, 'empty nesters' and mature single people - they cannot always find the sort of home they want in the area they want it. As part of our Housing Strategy, we want to achieve a more balanced housing market so that there are enough homes of different tenure types, sizes and quality for people at all stages in their lives to aspire to. Our new Housing Strategy 2022-27, focuses on driving economic success and widening housing choice, increasing owner occupation, and enabling independence, with eight key objectives, all of which are pertinent to this Plan, but significantly aim to provide a council housing offer which meets the needs of residents, as well as refreshing obsolete stock.

The Business Plan reflects the role that council housing has to play in this respect, ensuring that we can manage and maintain our existing homes well, that we can improve and update homes which don't meet current and future requirements. Within this, we will provide new homes which better meet current and future housing requirements and help to balance the housing market. Of particular note is the ageing population and the need for high quality, affordable housing for older people, and the need for smaller homes for single people given the one-bed restrictions for those claiming housing benefit/ universal credit.

Our Existing Council Housing – Type and Size

As at the 31st March 2021 there were 17,748 council homes across the city, broadly spread across the six towns of Tunstall, Burslem, Hanley, Stoke, Fenton and Longton and their surrounding areas. Significantly, whilst the overall number of homes in the city has increased by over 7,000 since 2011, the number of council homes has fallen by over 1,400 over the same time. Whilst council homes in 2011 made up over 18% of the city's housing, it now makes up just over 15%.

Most of our council homes, 11,239, are houses, the majority of which are two or three bedroom (11,607), only 164 of our houses have four bedrooms or more. We also have 3,637 bungalows, which make up the majority of our one bedroomed homes (3,324); 2,732 flats, about a quarter of which are one bedroom; and 140 sheltered housing apartments across seven sheltered housing schemes. In addition to its rented housing, the council also owns 400 leasehold properties. A break-down of our housing stock is provided at Appendix A.

Demand for Council Housing

There is generally good demand for our homes, with many of them in established communities within the six towns and surrounding areas. We know, however, that there is a need for different types of properties in different locations and that some of our homes do not meet current or future housing requirements, this is especially true of some of our bungalows and flats. If we are not able to provide the kind of homes that people want to live in, or can afford to live in, there is a risk that vacancy rates will increase, undermining both the financial viability of the HRA and the stability of local communities. As at the end of March 2021, there were 1,960 people on the waiting list, just less than half of them (912) were waiting for a one bedroom home, and where during 2020/21 only 440 one bedroom properties became available to let. Demand for one bedroom homes is likely to increase as the population gets older and due to under occupancy restrictions on housing benefits. Demand for larger homes, four bedroom plus, is also evident, with some 184 people waiting for larger homes and only two becoming available over 2020/21.

As referenced in the section about our population above, the Plan includes for the replacement of new homes which meet current and future housing needs, as well as to remodel homes and estates where appropriate. New and remodelled homes will reflect current and future housing requirements; this will include appropriate housing for older people and smaller, one bedroom homes where this fulfils a particular need within a local housing market.

Tenancy Turnover

The number of properties becoming empty during 2020/21 was 1,188, which means that just over 7% of council homes became empty and, therefore, available to rent, over the course of the year. There are differences between property types, for example, 3% of our houses became empty (458), 1% of our bungalows (329) and 2% of our flats (401). It is also true to say that there are geographical differences, with some areas of the city having higher rates of turn-over than others for all property types.

The turnover of properties puts pressure on the HRA because of lost rental income while they remain unoccupied, together with the cost of any works which are required prior to re-letting. Importantly, however, tenancy turnover does provide the opportunity to re-let property at the government's formula-based rent, in line with our Rent Setting and Collection Policy. Using rent setting flexibilities contained within the Government's Policy Statement on Rents for Social Housing (February 2019) also provides the potential to re-let up to 5% (10% for supported housing) above the formula rent to reflect particular local circumstances provided there is a clear rationale for doing so and that rents remain affordable. Formula rents can also be increased on re-letting to reflect major works that have had a material effect on the value of the property. This type of work could include structural work like the addition of an extension rather than components such as new kitchens or bathrooms.

Government Policy

The Plan takes account of national policy initiatives as they relate to council housing and the HRA – the main ones are:

- Universal Credit provides a single monthly payment, which includes housing costs, for people looking for work, those unable to work because of illness or disability, or on a low income. Single people making new claims now get universal credit instead of job seeker's allowance, this includes their housing costs, which is paid direct to them monthly in arrears.
- Annual rent increases must comply with the Rent Standard published by the Regulator of Social Housing which reflects the Government's Policy Statement on Rents for Social Housing (2019). The current policy statement allows for annual rent increases of up to CPI plus 1% for rent increases up to and including April 2024. Beyond that we do not know what the future policy will be.
- Fire Safety Act 2021 – which amends the Fire Safety Order 2005 to reflect recommendations arising from the Grenfell Tower inquiry so that landlords have the legal responsibility to assess, manage and reduce the fire risks posed by the structure and external walls of the buildings for which they are responsible, including cladding, balconies, windows and individual doors opening onto common parts of the building.
- The Building Safety Bill is currently going through Parliament. Landlords will be required to manage safety risks, with clear lines of responsibility for safety during design, construction, completion and occupation of high-rise buildings. They will also need to demonstrate that they have effective and proportionate measures in place to manage safety risks.
- Decarbonisation - The Government has established the Social Housing Decarbonisation Fund to upgrade social housing currently falling below Energy Performance Certificate (EPC) C up to that standard, delivering warm, energy-efficient homes, reducing carbon emissions and fuel bills, tackling fuel poverty, and supporting green jobs. Resources of up to £3.8 billion over 10 years will be made available to local authorities and housing associations that submit successful bids.
- The Social Housing White Paper - "The Charter for Social Housing Residents" published in November 2020 sets out what residents of social housing should expect from their landlord with a new focus on service delivery and tenants' influence. These expectations include being safe in your home, to know your landlord is performing, to have complaints dealt with promptly and fairly, to be treated with respect, to have your voice heard, to have a good quality home and neighbourhood to live in and to be supported to take first steps towards home ownership.
- New Homes – The Government published a white paper on reforms to the planning system to encourage the development of more new homes. A new grant regime the Affordable Homes Programme 2021 to 2026 has been introduced by Homes England. The majority of homes funded under this programme will come with a right to shared ownership. The landlord of shared ownership properties will also retain responsibility for repairs during the first 10 years.
- Encouraging Right to Buy (RTB) – The government continues to support RTB in England by increasing the discounts available to tenants in recent years. It has also relaxed some of the rules around the use of the money generated from RTB sales. Councils can now retain receipts for up to 5 years and finance up to 40% of eligible costs.

The financial assumptions at Section 7 reflect the potential impact of policy initiatives on the HRA.

4 SERVICES DELIVERED THROUGH THE HRA BUSINESS

Services

As a landlord of over 17,000 homes in the city we provide a range of services to tenants through the Housing Revenue Account business. These include:

- Day to day repairs and maintenance
- Major repairs and improvements to properties
- Estate improvements
- Fire Safety
- Managing properties when they become empty
- Sheltered housing
- Rent collection and the collection of other income such as service charges
- Income advice and advice to tenants affected by welfare reform
- Debt advice (Via Citizens Advice Bureau)
- Tenancy and estate management
- Allocations
- Right to Buy
- Aids and adaptations
- Gardening and decorating service for vulnerable tenants
- Cleaning in apartment blocks
- Grounds maintenance
- Garage rentals
- Homelessness

Service Delivery

The Housing Revenue Account is the responsibility of the Director of Housing, Development and Growth. Housing Services delivered through this directorate include:

- The day to day Housing Management Services which are currently delivered through 7 teams are spread across the city. Customer Services can be accessed through our call centre, online or through the customer access points.
- The Homeless, Allocations and Letting Service, the Homeownership Service and Sheltered Housing Service are managed by specialist teams.
- Repairs, Voids and Planned Investment Works are currently provided through Unitas Stoke-on-Trent Limited, a wholly owned council subsidiary company.
- New build and remodelling services are delivered through the Housing Development Team.

Service Improvement

We have a focus on service improvement and, within that, value for money. We want to provide our tenants and leaseholders with excellent services and we want to spend the money we collect to best effect. The amount of rent we collect, how quickly we re-let our empty properties and how much we spend on repairs and maintenance are all fundamental to the viability of the Business Plan.

Over the life of the previous 2017 Business Plan, the service has commissioned and undertaken three external health checks of its housing services – assessments to act as a baseline for us on how we are performing and a direction of travel as we strive to improve services and performance. The results of those reviews clearly evidence a journey to excellence in our housing service, moving from a “weak one star (fair)” service in 2016, with “promising” prospects for improvement, through to a “strong one star (fair)” service in 2018, with “excellent” prospects for improvement, to now in 2020 being assessed as “Strong Two Star (Good) Service, with Excellent Prospects for Improvement”. Not only is this overwhelmingly positive, but it clearly demonstrates the improvement journey, robust performance framework and focus on excellence in the service, along with compliance with the Consumer Standards as set by the Regulator of Social Housing.

5 INVESTING IN EXISTING HOMES

Making Sure We Maintain and Improve the Homes We Have

Repairs and maintenance is the largest single item of expenditure in our Housing Revenue Account accounting for 38% of all HRA spending and so controlling these costs is vital to make sure we can continue to improve the quality of our homes and services in the future. Every 1% variation in these costs will either increase or reduce our cost base by £260k. Therefore, we aim to provide an effective repairs service for our customers which delivers value for money and makes the best use of limited resources.

Our investment priorities are set out in the HRA Asset Management Strategy which aims to shift the balance away from high volume, inefficient, responsive repairs, to planned maintenance programmes. In the longer term this will free up resources to invest in our homes, services and neighbourhoods so that we can meet the expectations of our tenants.

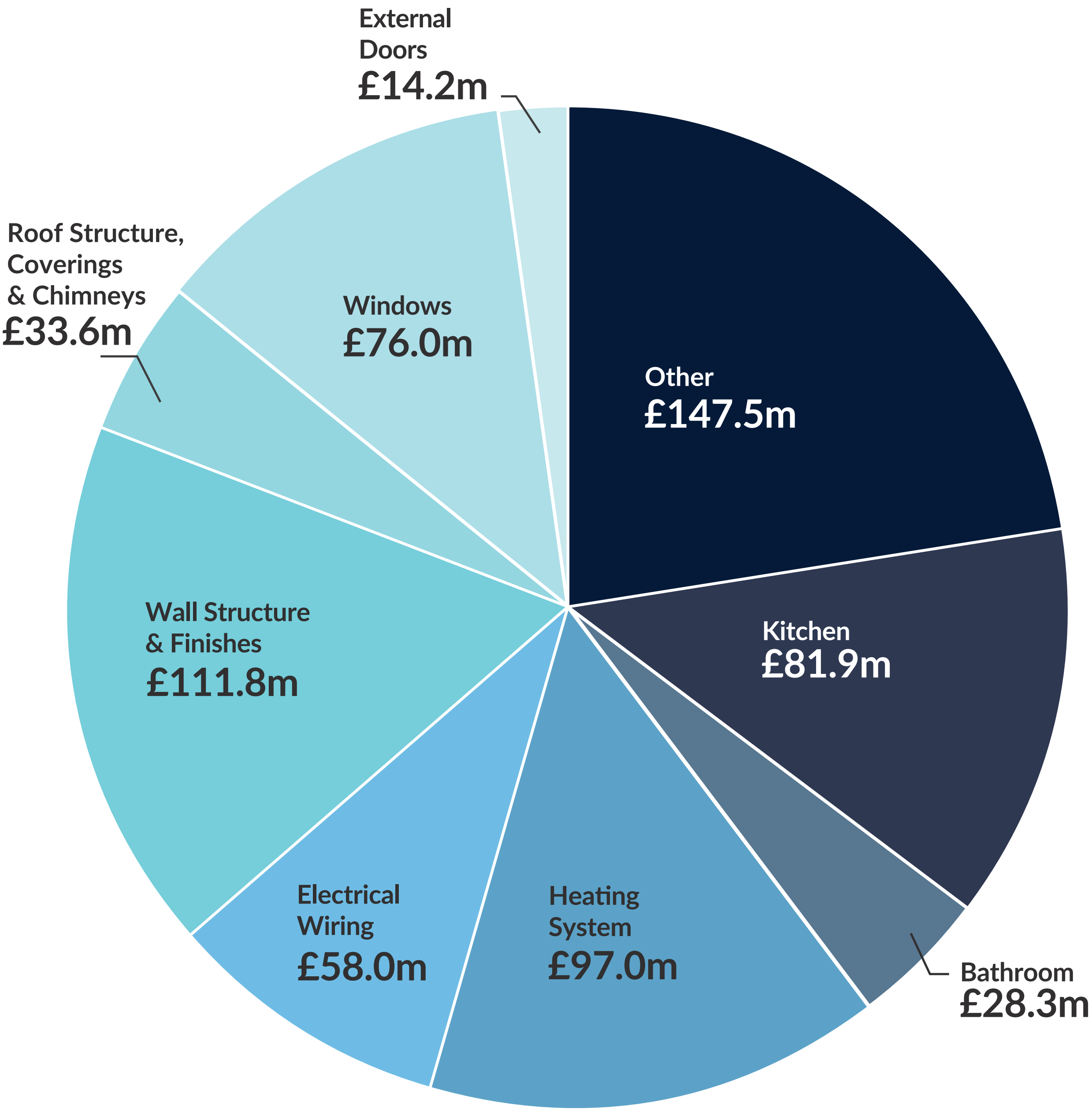
Our priorities are based upon the approach of ensuring that the council's legislative duties have first call on resources. We will also repair and maintain our properties to ensure they remain in a safe & decent condition. Remaining funds for investment will then be directed at priorities identified through detailed options appraisals resulting in investment, disinvestment or redevelopment where appropriate. Our primary aim is to ensure that investment adds quality to our tenants' homes and adds value to our asset base. We will continue to invest in our high performing core assets (the majority) but investments in more challenging properties will be guided by these appraisals.

Stock Condition

We have continued with significant investment in decent homes component renewal programmes, the housing stock has further benefitted from multi-million pound investment, through the completion of market leading, energy efficiency refurbishment projects. Our houses in particular, which make up 63.3% of our stock, are generally regarded as being in a satisfactory condition, with this historic investment having helped to ensure that the majority of our homes are viable and lettable. However, we still have some difficult issues that need to be addressed.

The Stock Condition Survey data is continuously being updated from the surveys that are completed by In-house Surveyors. These surveys identify the future need to replace building components (for example, bathrooms, kitchens, roofs, windows, fascia – essentially the fabric of the building), as they reach the end of their useful lives. The investment need is based upon a survey of around 80% of our housing stock. The data from these surveys has then been extrapolated to determine the investment need of the housing stock as a whole. This is £648m over 30 years, at current prices, including backlog works of £1.6m. The expenditure required is equivalent to an average of £1,181 per property per year. The cost of replacing major components in the survey data over 30 years is shown in the chart below.

Stock Condition Survey Data - 30 year Cost Replacement Elements



The Stock Condition Survey requirements have been included in the Business Plan which will enable us to ensure that none of our:

- Boilers are more than 15 years old;
- Kitchens are more than 20 years old;
- Bathrooms are more than 30 years old;
- Heating distribution systems are more than 30 years old;
- Windows are more than 40 years old;

We will tailor our investment to the resources that we have available and in doing so we will need to consider the following challenges, in that:

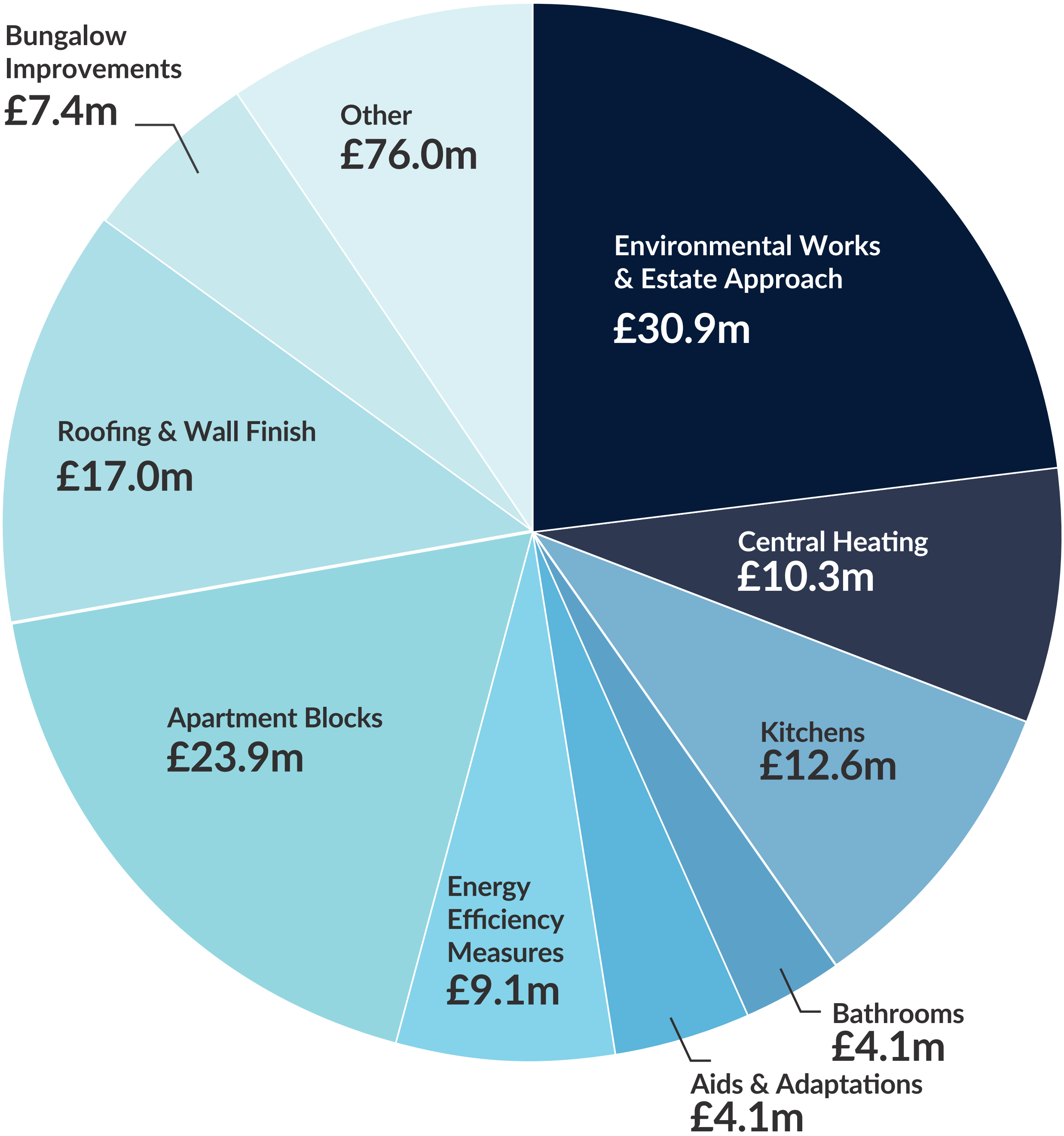
- We have over 3,600 bungalows, many of which have issues including poor layout and space, poor access (up or down external stairs) and poor geographical location in relation to local amenities;
- We have 10 nine-storey apartment blocks requiring investment that need to be option appraised;
- We had 140 units of sheltered accommodation across seven schemes, but following an options appraisal all but one scheme has been decommissioned. We have also built a new facility QEII and a second scheme will be completed in Spring 2022.

To address these issues, we have undertaken a series of surveys, options appraisals and pilot projects. These include;

- Commercial property surveys and investment plans;
- Sheltered housing option appraisals and refurbishment;
- Structural and viability reviews of maisonettes;
- Pilot projects on estate environmental improvements;
- Pilot programmes for the replacement of UPVC cladding on bungalows, tile and timber cladding to properties generally and cross-wall cladding with new insulated cladding.

The Stock Condition information from the surveys and the stock grading modelling provide the basis for the capital programme, which also includes expenditure on aids and adaptations, energy efficiency, the refurbishment of apartment blocks and our estate improvement approach, bringing increased investment into the external environment. The core capital programme over the next five years is summarised in the following chart. The proposed annual capital programme for the next five years is shown in Appendix B.

Stock Investment 2021/2022 to 2025/2026



Non-Dwelling Assets

The Housing Revenue Account also owns 1,115 garages in clusters on sites and has 972 garage plots, where leases for individuals to build a garage are managed. An overall garage site strategy, underpinned by the HRA Asset Management Strategy, will be developed to determine long-term demand and future utilisation or redevelopment of these assets.

The Housing Revenue Account includes 52 commercial premises, which are spread across 15 locations across the city. The majority of these are ground floor shops, which have residential units above.

Increasing Energy Efficiency

Our Fuel Poverty Strategy highlights the impact of the hardship faced by households living in or on the brink of fuel poverty which often involves very difficult trade-offs between meeting their fuel bills, spending on other essentials such as food and falling into debt, all of which can exacerbate physical and mental health problems.

Within our own housing stock we are improving the energy efficiency of our homes and providing affordable heat is the most cost-effective, sustainable and long-term solution to tackling fuel poverty. The HRA Renewable Energy Strategy sets out our plans for the installation of renewable energy technologies. Our capital programme over the next five years includes £10.3m on central heating systems and £9.1m on energy efficiency measures.

6 NEW HOMES AND ESTATE REMODELLING

What we can do with the money we have

The HRA Business Plan includes around £190.5m for the development or acquisition of around 1,241 new homes over the next 10 years. This includes money which is available to us through borrowing, Right to Buy receipts and grant funding, which we have been successful in bidding for.

We have identified a number of potential sites in the HRA land portfolio that can be used for the purpose of new build. New build and acquisition make it possible to provide new replacement homes which meet current and future housing needs. This includes delivering to current day standards, for example on quality and size and tailoring provision to match demand, for example reflecting household size and policy directives such as those associated with welfare reform, particularly impacting on those under 35 years of age and single people.

Critically, new provision has a positive impact on the long-term finances of the Housing Revenue Account by replacing stock that has been lost through Right to Buy, demolition of poor quality low demand housing and other disposals and, therefore, bringing in a rental income.

Appendix C illustrates the 30 Year Capital Programme Funding - showing Core Capital and Total New Build.

Providing new homes

We will replace some of the homes lost through Right to Buy with homes which meet current and future housing requirements, facilitate growth and further enhance the quality and sustainability of HRA stock, all of which will contribute to the wider regeneration of the city. The new homes that we provide will not simply replace the one that we have sold through Right to Buy. Instead we will provide the types of homes that our residents need to meet demand for high quality housing of the right type in the right places.

Different options are being explored and costed with 12 clearly identified sites included in the Plan. These sites will provide 607 new homes by March 2025 with a further 674 new homes provided by March 2031. The additional cost is estimated to be around £85.1m in the first five years, rising to £190.5m over 10 years of the plan. We will also continue to invest more in improving our estates too, including remodelling and refurbishment subject to the availability of resources.

As referenced in Section 2, having a supply of good quality council housing has a direct impact on people’s health and well-being, their ability to live safely and independently and their life chances; as well as helping the council to fulfil its obligations in relation to meeting housing need and preventing homelessness. New council homes also offer financial benefits to the council and to the economy of the city.

6 HOW WILL WE PAY FOR IT

Income and Expenditure

The Housing Revenue Account is a ring-fenced account within the council's General Fund which is used to account for transactions relating to council housing.

Since the introduction of Self-Financing in April 2012 the council has been able to keep all of the income generated by its council housing. It has to be kept in the Housing Revenue Account and used for the purpose of maintaining and investing in council housing and delivering services to tenants. This HRA Business Plan includes 30 year cash-flows that can be used to help inform decision making about, for example, investment in existing housing stock and making the most of opportunities to provide new council homes to meet future demand for housing in the city.

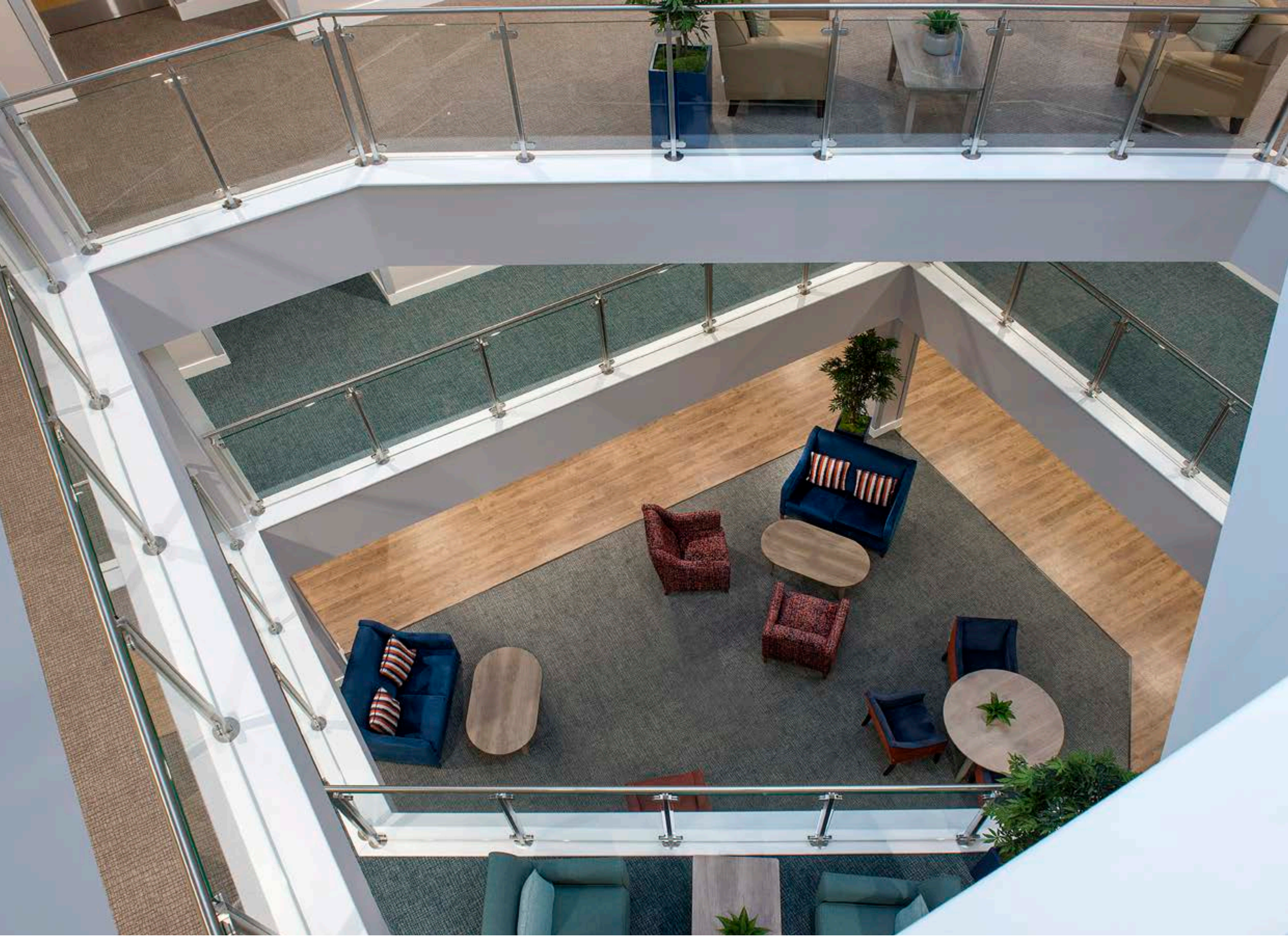
In setting the HRA budget as part of the council's Medium Term Financial Strategy, the revenue costs and capital investment are considered against the overall income, reserves and borrowing available to the HRA. As an example, the 2021/22 forecast budget is shown in the table below.

Income/Expenditure	Budget 2021/2022	Budget
Income	**£'m**	**%**
Dwellings Rent	65.139	94.33
Services and Facilites	1.181	1.71
Investment Income	0.123	0.18
Non Dwelling Rents	0.639	0.93
Contributions and Expenditure	0.202	0.29
Transfer from Reserves	1.768	2.56
Total Income	**69.052**	**100**
Expenditure		
Repairs and Maintenance	25.983	37.63
Supervision and Management	18.475	26.76
Service Charge Expenditure	1.523	2.21
Provision for Bad Debts	0.3	0.43
Depreciation	15.1	21.87
Capital Financing Costs	7.576	10.97
Additional Funding Capital Programme	0.095	0.14
Expenditure Total	**69.052**	**100**

The 2021/22 budget forms the foundations of the Business Plan from which the future cashflows are developed. The Business Plan forecasts are underpinned by a series of assumptions which are used to estimate future income, costs and major capital investments. Importantly, these assumptions take account of national policy initiatives as they relate to the council housing and the HRA as shown at Section 3. Key assumptions are headlined below and detailed at Appendix D.

Key Assumptions

- Consumer Price Index (CPI) assumed at 2.0% per year in line with the Government's inflation target;
- Retail Prices Index (RPI), which drives costs, assumed at 0.5% higher than the CPI throughout the 30 year forecast;
- Interest on any additional borrowing assumed at 2.00% in years 1 to 3, 2.50% in years 4 to 6, rising to 3.0% thereafter;
- Investment interest has been applied to Housing Revenue Account balances assumed at an interest rate of 0.5% per year;
- Rental income assumes:
  - An average rent of £72.13 per week on a 52 week rent basis;
  - New tenants will pay the target rent, which is consistent with our lettings policy.
    - Rents increase by CPI + 1.0% up to year and including year 4, after which rents are estimated to increase by CPI + 0.5% per year;
    - Rent loss from voids assumed to be 2.0% per year.
    - Provision for bad debts assumed to be £300k in year 1 rising in line with the annual rent increase for future years;
- Minimum HRA revenue reserve of at least £4.6m to significantly reduce the risk of any unforeseen consequences. A prudent level of HRA revenue reserves will be determined annually as part of the budget setting process;
- Right to Buy sales assumed at 175 houses in 2021/22 with 3,192 sales over 30 years;
- All of the Right to Buy receipts are assumed to be available to finance the Housing Revenue Account capital programme, where permitted. The receipts available for replacement homes will be used either to finance new build expenditure in the HRA, or to grant fund development by housing associations building new homes in the city.
- Supervision and management costs are assumed to be 90% fixed and so 10% of the average cost per unit is assumed to be saved when the housing stock falls due to either Right to Buy sales, demolitions or other disposals. Supervision of management costs increase each year by the RPI of 2.5%;
- Repairs and maintenance costs are assumed to be 100% variable and are directly affected by increases or reductions in the housing stock. Costs are assumed to increase annually by the RPI of 2.5%;
- Capital charges are based upon the HRA share of the Council's debt as at 1 April 2021 plus any additional borrowing needed over the life of the business plan. The initial HRA debt amounts to £187.241m which includes the HRA share of council loans taken out before the introduction of self-financing in 2012, HRA loans of £74.441m to cover the self-financing settlement payment in 2012 and any additional borrowing taken out since then to finance the HRA capital programme;
- The capital programme is based upon our Medium Term Financial Plan for the first five years 2021/22 to 2025/26 and projected spend in line with our Stock Condition Survey data for subsequent financial years. The capital programme is financed from the depreciation accumulated in the major repairs reserve, receipts from Right to Buy sales after allowing for the element that can only be used to finance replacement homes, and contributions from the revenue account and reserves, where affordable. Any remaining shortfall in capital resources is then covered by additional borrowing subject to affordability criteria set out in the Prudential Code for Capital Finance in Local Authorities.



Financial Viability of the Housing Revenue Account

When applying the next 30 years financial projections the plan takes account of the Government's rent policy and the expected reduction in properties through RTB sales.

RTB sales can undermine the long term financial viability of the HRA and so Government policy encourages us to replace homes with the help of proceeds from the RTB sales which are subject to complex rules on how they can be used. An element of the sales income can only be used to finance up to 40% of the cost of replacements homes. Any such receipts that remain unused after 5 years need to be paid to government along with interest to finance new homes as part of the government's affordable housing programme.

To address this issue we have plans to deliver up to 1,241 new homes primarily focusing on new supported housing properties for older people and others with a range of complex needs. We will also look to provide one bedroom homes for single person households who would otherwise be penalised for under occupancy in larger accommodation.

We also recognise that the demand for HRA financial resources will intensify over time to ensure that we comply with the new and emerging requirements like greater resident involvement, fire and building safety requirements, potential changes to the decent homes standard and decarbonisation of the homes that we provide. Therefore, we will review the HRA Business Plan annually to take account of new requirements as they become clearer and to ensure that we can deliver as much as possible for our tenants and the City with the resources that we have available to us. We will also explore ways of attracting additional resources for example, bidding for Homes England Grant and resources from the Social Housing Decarbonisation Fund or other emerging sources like institutional investment.

The council cannot legally set a deficit budget for the HRA and so we need to ensure that we have adequate reserves in place over the 30 year life of the Plan. Under the assumptions used in the base business plan, the Housing Revenue Account can maintain useable reserves £4.6m each year during the first 10 years. Reserves then start to increase as the Housing Revenue Account generates ongoing surpluses and the reserves reach £45.7m by the end of year 30.

The capital expenditure on the existing housing stock and neighbourhoods is based upon our stock condition data. The future capital programmes will be based upon investment need resulting from rolling stock condition surveys and guided by the principles outlined in the newly revised HRA Asset Management Strategy. In addition to maintaining adequate reserves, the Plan produces a fully financed capital programme.

The base case assumptions indicate that **we can deliver the investment required in our homes from the resources that we have available.**

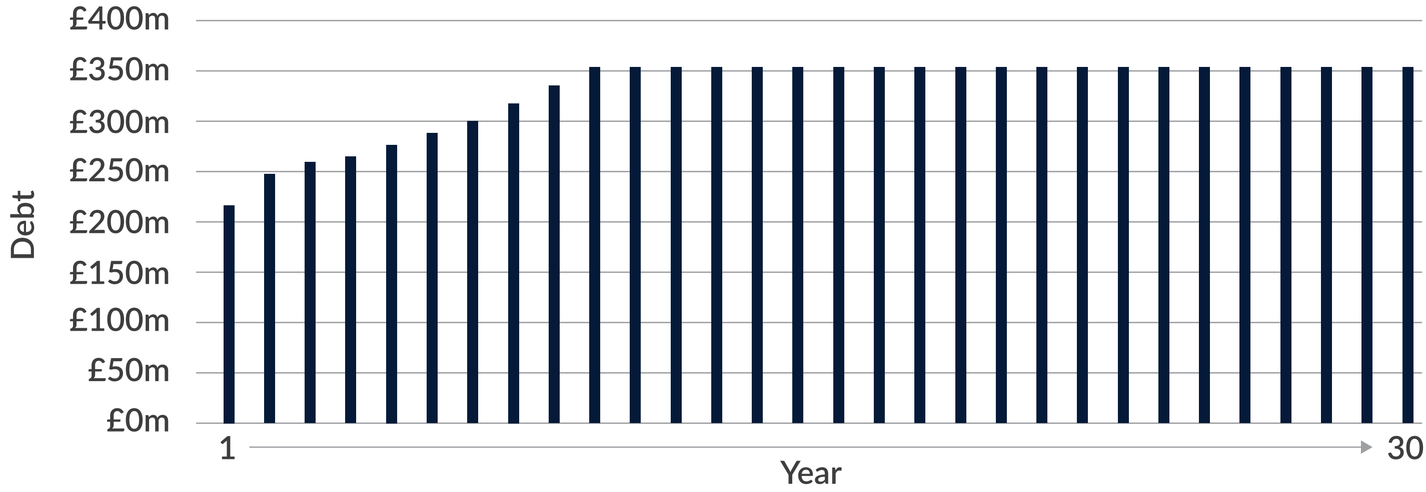
This demonstrates that our Housing Revenue Account is financially viable over the long term and we will have resources available to help us manage risk and pay for our existing plans and the investment needed in our housing. We will strive to ensure that future investment in our housing stock provides excellent value for money.

Borrowing Capacity

The cap on HRA debt that had existed since the introduction of self-financing was finally removed in October 2018. Councils are now free to borrow for HRA capital expenditure provided the additional borrowing is affordable and complies with the requirements of The Prudential Code for Capital Finance in Local Authorities. The HRA cannot borrow to finance revenue spending.

The HRA debt brought forward in April 2021 is £187.241m. This debt is serviced through the HRA and does not affect the General Fund. The HRA debt is assumed to increase during the first 10 years, rising from £187.241m to £353.315m, as additional resources are needed to finance the cost of delivering the 1,241 new homes included in the Plan. Thereafter, the HRA has sufficient resources to finance the ongoing capital programme without the need to borrow further. Projected HRA borrowing over 30 years is illustrated in the following graph.

HRA Debt



Efficiency

A fundamental part of the Stronger Together vision is the drive for efficiency in everything we do. A key component in the drive for efficiency in the Housing Revenue Account was the creation of a wholly owned subsidiary repairs company, Unitas Stoke-on-Trent Limited, which provides an efficient and commercially focussed approach to repairs approach, whilst delivering high quality customer services. Unitas provides a real opportunity to release existing responsive and other repair revenue budgets by bringing real operational efficiency and increased value for money.

Therefore, the opportunity exists to start to reduce the £25.6m annual revenue Repairs and Maintenance budget, by establishing an annual rolling programme of efficiencies.

Sensitivity Analysis

The Business Plan is based upon the best information currently available but it still faces significant risks that could undermine the long term viability of the Housing Revenue Account. The Business Plan is particularly sensitive to changes in the government's rent policy, fluctuations in interest rates, and increases to management and repairs costs. The sensitivity analysis looks at the potential impact on the HRA of alternative rates for inflation and interest, annual rent increases, management costs, repairs and the capital programme, including an indicative redevelopment scenario for our high rise obsolete accommodation. The results from the sensitivity tests including the impact on revenue, capital resources and HRA debt are shown in Appendix E.

SWOT Analysis

Our overriding aim is to ensure that we provide high quality homes and neighbourhoods where people want to live that are both affordable and fit for purpose now and in the future. The strengths, weaknesses, opportunities and threats for the HRA are summarised below.

STRENGTHS

- Controlled by the council
- Economies of scale
- Housing Revenue Account balances of £4.6m can be retained
- Capital investment needed can be delivered
- Sites available for new development
- Clear vision and strategy

WEAKNESSES

- Activity constrained by legislation
- Uncertainty about the future rental stream
- Imbalance between demand and the types of properties available

OPPORTUNITIES

- Borrowing capacity to invest in the existing stock or new homes
- Better use of Housing Revenue Account assets
- Potential to reconfigure services to drive value for money and address future needs
- Redevelopment of low demand housing

THREATS

- Uncertainty over long-term national housing policies.
- Increased losses of stock from Right to Buy
- Economic downturn making it more difficult to meet demand

Future Funding

Having established this baseline position and being confident that the business is sustainable for the term of the plan, enabling the council to maintain its existing stock to a good standard and to fulfil its obligations to existing tenants, we are now looking at how we could deliver more ambitious and substantive programmes of investment through the HRA.
To be able to invest in improving our existing homes and estates, as well as building new homes, including remodelling and refurbishment, we need to ensure that we make the best use of the resources available to us. This includes the resources that we already have as well as any new funding streams that might become available in the future. We continue to ensure that maximum value can be obtained from our spending plans:

- Savings on existing service delivery;
- Other forms of investment;
- Grant funding;
- Working with the Department for Levelling Up, Housing and Communities (DLUHC) to try and get greater flexibility for the HRA, for example asking for:
  - Rent certainty after 2025
  - More flexibility around the use of Right to Buy receipts beyond the recent relaxations;
  - The ability to be able to use mixed funding streams to fund new build and remodelling.

Again, it is worth reiterating that new housing provision will not only be demand led to provide the types of homes that our residents need but it will also be financially beneficial to the council, in addition to increased rental income into the HRA, key examples include:

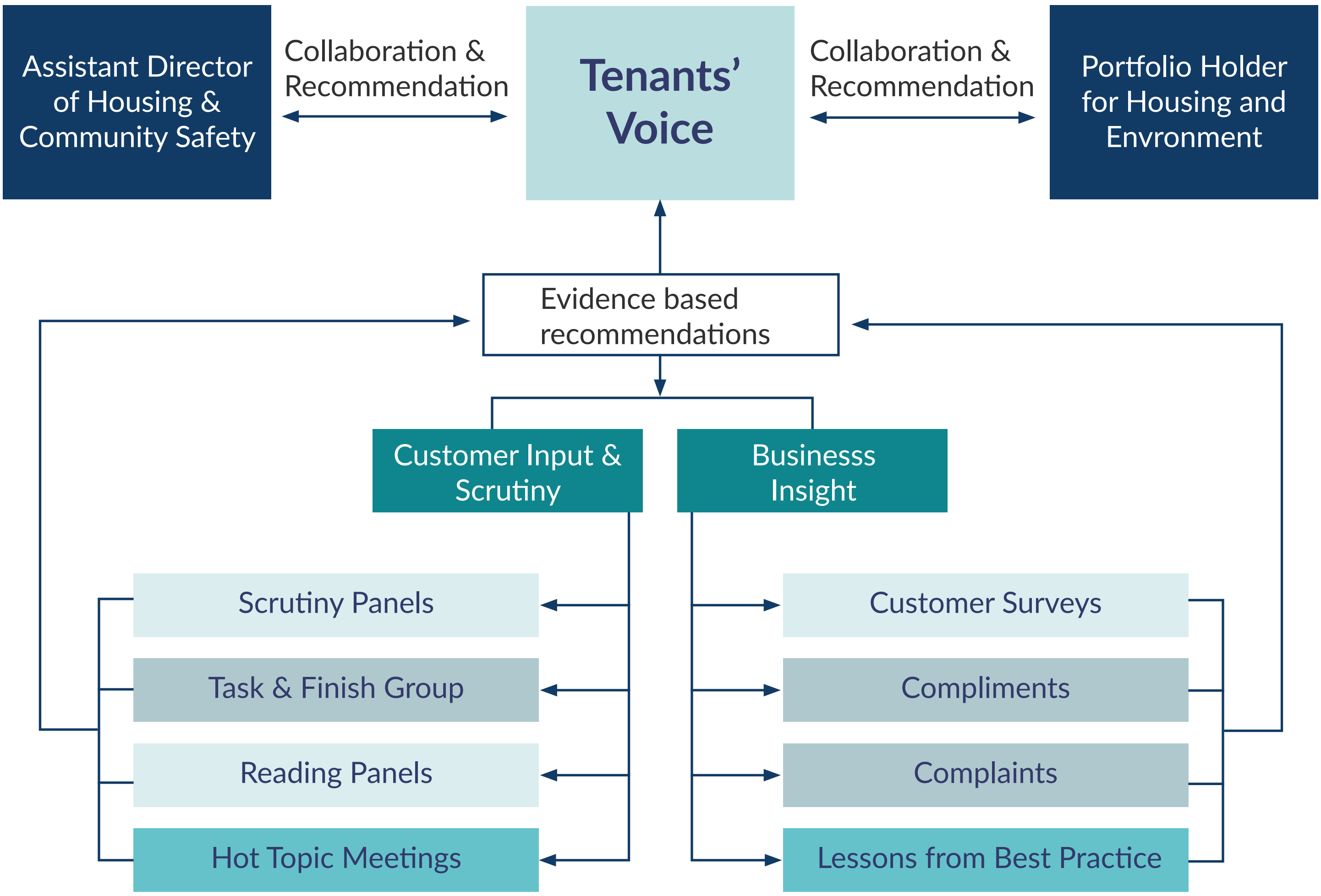
- For every 200 new homes delivered the council will receive circa £305k of New Homes Bonus from the Government, rising to circa £1.523m for every 1,000 new homes delivered.
- For every 200 new homes will generate additional council tax income of circa £187k, rising to circa £934.5k for every 1,000 new homes delivered.
- The Plan will be reviewed on an annual basis and updated to reflect the outcome of this exploratory work.

8 GOVERNANCE AND PERFORMANCE

Governance

The City Council's Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The HRA Business Plan and policy framework is approved by Cabinet, as are key decisions for example in relation to the capital programme, which is included in the council's Medium Term Financial Strategy, and dwelling/non dwelling income in the annual rent setting report.

Informing and supporting those decisions is a structure of resident involvement proposed within the Housing Customer Engagement Strategy, below:



In addition, there is a Leaseholder Model which enables activity and debate specific purely to leasehold issues, supported by a half-yearly newsletter, surveys, consultation activities and task and finish groups.

Performance - Measuring Performance

We have a performance framework which incorporates monthly performance metrics and quarterly performance measures for the services we provide across the HRA business. This helps us to monitor service delivery and to report consistent information to a range of audiences, including to tenants and to officers in the council, together with Overview and Scrutiny and to Cabinet. Importantly, these measures and the discussion around them help us to make decisions about service improvements and about how to make services more efficient. There is also a direct link to the strategic measures in our Stronger Together Strategic Plan which ensures that the HRA business contributes to the Stronger Together priorities identified earlier in the Plan.

Also subject to monitoring and scrutiny within the framework, we have an annual Operating Plan, Theme Plans, and Team Plans and associated Risk Register for the Housing, Development and Growth Directorate which includes our priorities and plans to improve efficiency, secure value for money and improve the quality of our homes and the services that we provide. Our annual team delivery plans are clearly linked to the Stronger Together Plan and the strategic outcomes that underpin it, and the annual Operating Plan.

APPENDIX A

Our Housing Stock – Property Type and Number of Bedrooms

Number of Bedrooms	Bedsit	1	2	3	4	5	6	Total
Bungalow	0	3,324	300	12	1	0	0	3,637
Flat	55	687	1,972	18	0	0	0	2,732
House	0	19	4,826	6,230	154	1	9	11,239
Non-Self-contained	0	0	0	0	0	0	0	0
Sheltered Schemes	14	63	62	0	0	0	0	140
Totals	**69**	**4,093**	**7,160**	**6,260**	**155**	**1**	**9**	**17,748**
Percentage	**0.4**	**23.1**	**40.2**	**35.3**	**0.9**	**-**	**0.1**	**100**

Flats account for 15% of the housing stock. Low rise apartment blocks of 4 storeys or less contain between 3 and 13 flats per block and those containing 5 and 9 storeys have between 31 and 38 flats per block.

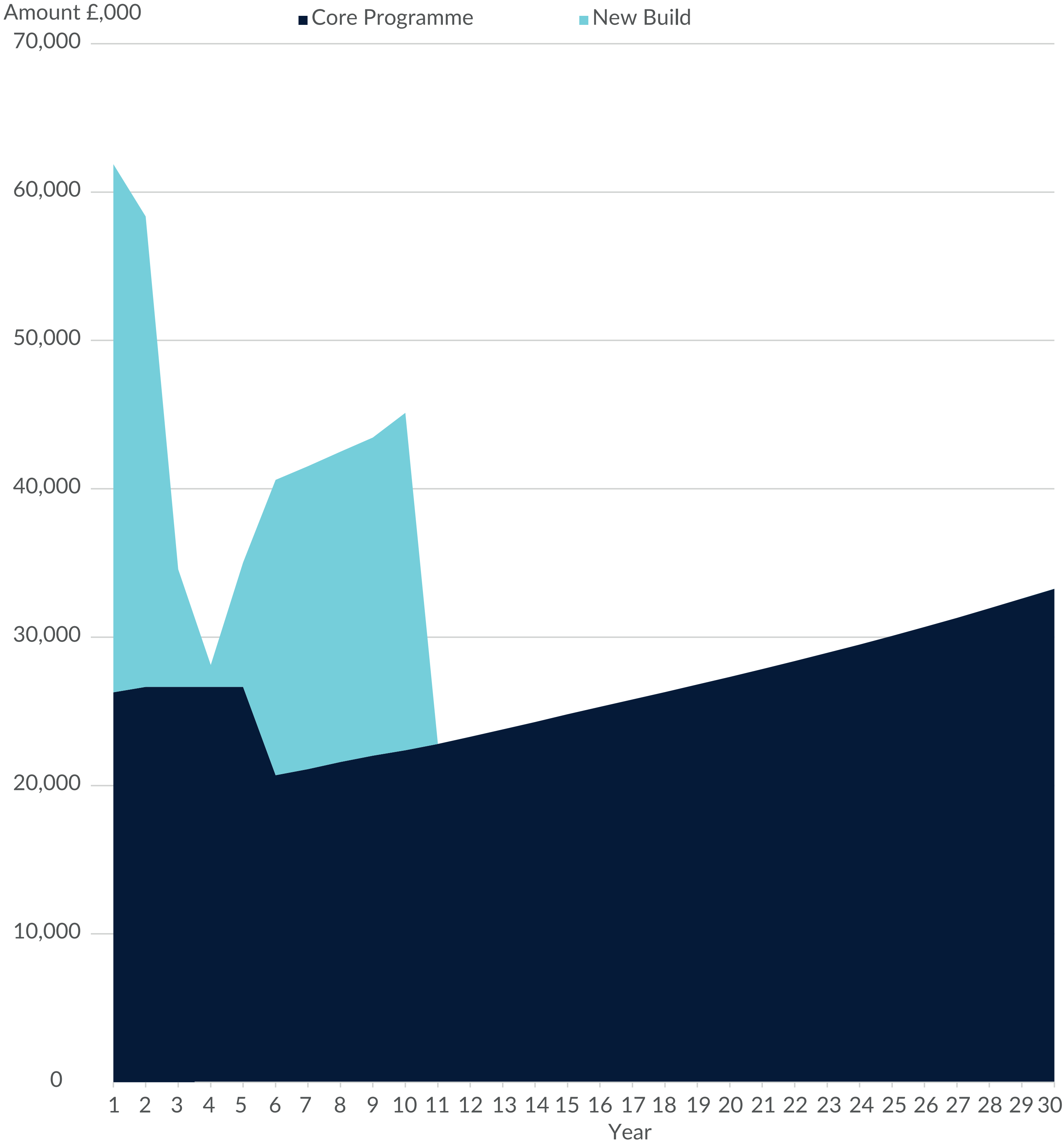
APPENDIX B

Our Housing Stock – Proposed 5 Year Capital Programme

Capital Budgets	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Central Heating	2,370	2,000	2,000	2,000	2,000
Kitchens	2,635	2,500	2,500	2,500	2,500
Bathrooms	845	800	800	800	800
Other Components	5,350	5,705	6,130	5,855	5,955
Environmental Works	95	700	200	200	200
Energy Efficiency Measures	2,580	2,130	2,025	1,600	800
Aids and Adaptations	1,050	1,050	1,050	1,050	1,050
Apartment Block Refurbishments	4,650	5,010	5,690	5,890	4,540
Estate Approach	6,715	6,750	6,250	6,750	8,800
Total Programme Before New Build	**26,290**	**26,645**	**26,645**	**26,645**	**26,645**
New Build with Identified Sites	35,587	31,710	7,928	1,472	-
Additional New Build	-	-	-	-	8,372
Total Programme	**61,877**	**58,355**	**34,573**	**28,117**	**35,017**

APPENDIX C

Capital Programme Funding 30 Years



APPENDIX D

Key Assumptions

- It is still unclear what the combined effects of leaving the European Union and the COVID-19 pandemic will be on the UK economy. Many commentators expect inflation to go beyond the government's target of 2.0% for the consumer prices index (CPI). Interest rates can be used by the Bank of England to reduce inflationary pressures in the economy. Although interest rates are at historically low levels, the interest rates offered to local authorities by the Public Works Loans Board (PWLB), which, are based upon yields from Government bonds, may increase. The Business Plan assumes that the CPI will be 2.0% in line with the government's target of 2.0%. We have also assumed that the retail prices index (RPI), which drives costs remains at 0.5% higher than the CPI throughout the 30 year forecast.
- Interest on any additional borrowing is assumed to be 2.0% in years 1 to 3, 2.5% in years 5 to 6 and 3.0% in year 7 onwards. The long term assumption is based upon the current PWLB rate of 2.04% for 30 year fixed maturity loans, plus 0.96% to reflect the uncertainty about future interest rates. Investment interest has been applied to Housing Revenue Account balances using an interest rate of 0.5% per year.
- The rental income is based upon an average rent of £72.13 per week on a 52 week rent basis. The equivalent formula based rent taking account of local earnings, number of bedrooms and property values in January 1999 is £72.70. The rental income assumes that new tenants will pay the target/formula rent which is consistent with our lettings policy. These rents increase by CPI + 1% per year up to and including the 2024/25 financial year, after which rents are estimated to increase by CPI + 0.5% per year. The government's rent policy allows for rent increases of up to CPI + 1% until 2024/25. Rent increases after this are still uncertain and so we have used a relatively prudent assumption on future rent increases.
- Rent loss from voids is assumed to be 2.0% per year and the provision for bad debts of £300k is equivalent to 0.45% of the rent debit. These assumptions have been used throughout the Business Plan.
- The housing stock in the Business Plan falls over time due to the level of Right to Buy sales. The Business Plan assumes 175 Right to Buy sales in 2020/21 and sales continue thereafter at 0.99% of the housing stock in each year until year 5. The number of sales then falls to 0.90% after 5 years, 0.70% after 10 years, 0.50% after 15 years and 0.40% after 25 years. Over 30 years the estimated housing stock of 17,748 dwellings as at 1 April 2021 will be reduced by 3,192 Right to Buy sales. All of the income from Right to Buy receipts is available to finance the Housing Revenue Account capital programme, where permitted. The receipts available for replacement homes will be used either to finance new build expenditure in the HRA, or to grant fund development by housing associations building new homes in Stoke-on-Trent.
- Supervision and management costs are assumed to be 90% fixed and so 10% of the average cost per unit is assumed to be saved when the housing stock falls due to either Right to Buy sales, demolitions or other disposals. All costs are assumed to increase by the RPI of 2.5% per year throughout the Business Plan.

- Repairs and maintenance costs are assumed to be 100% variable and are directly affected by increases or reductions in the housing stock. The budgeted cost of repairs in 2021/22 is £25.983m and costs are assumed to increase annually by the RPI of 2.5%.
- The capital charges are based upon Housing Revenue Account debt of £187.2m as at 31 March 2021 plus any additional borrowing needed to finance the capital programme in the future. The initial debt of £187.2m is made up of the Housing Revenue Account's share of Council loans taken out before the introduction of self-financing in 2012, Housing Revenue Account, loans drawn down to cover the Self-Financing settlement payment plus any new borrowing needed to finance the capital programme since April 2012
- The capital programme for existing housing is based upon our Medium Term Financial Plan for the first five years 2021/22 to 2025/26 and projected spend in line with our Stock Condition Survey data for subsequent financial years. New build schemes have been added so the delivery of new homes is consistent with the Strategic Housing Investment Programme approved in February 2020, albeit over a slightly longer timescale. The capital programme is financed from the depreciation accumulated in the major repairs reserve, receipts from Right to Buy sales after allowing for the element that can only be used to finance replacement homes and contributions from the revenue account and reserves, where affordable. These resources are supplemented by additional borrowing where required.

APPENDIX E

Sensitivity Analysis

The Plan makes assumptions based on historical and forecasting data. Table 1 shows the interest and inflation rates used in the base model.

Table 1 - Base Model Assumptions

	Base Year 20/21	Year 5	Year 10	Year 20	Year 30
CPI Inflation Rates	2.00%	2.00%	2.00%	2.00%	2.00%
RPI Inflation Rates	2.50%	2.50%	2.50%	2.50%	2.50%
Interest Rates on External Borrowing	2.00%	2.50%	3.00%	3.00%	3.00%
Rental Income Forecast	1.50%	2.50%	2.50%	2.50%	2.50%

Table 2 shows the impact of changing some of the main assumptions has on the financial projections. We don't know what will happen in the future but by flexing the Plan's assumptions we can gain an understanding of the risks associated with delivery of the Plan and help us plan to mitigate those risks. For each scenario the table shows the impact on HRA reserves, the need to secure additional capital resources, if necessary, and the total HRA debt after 30 years.

In reality it is unlikely that changes will happen in isolation or the impact will be exactly as projected. It is more likely that a combination of changing circumstances will affect the HRA simultaneously. For example fluctuations in interest rates might go hand in hand with fluctuations in the rate of inflation. Therefore, we will need to be alive to changing circumstances and take timely action to address any potential issues arising.

Historically, movements in the rate of inflation tend to be mirrored by movements in interest rates. That is because setting interest rates is one of the main tools available to the Bank of England to combat inflation in the economy. In isolation, increases in inflation are generally beneficial for the business plan because rents tend to increase at a faster rate than costs. Conversely, lower than expected inflation tends to have a negative effect.

Increasing interest rates in isolation has a negative effect because the cost of new borrowing will be higher although much of the Council's historic borrowing is at fixed interest rates and will be protected from interest rate rises. A 1% movement, up or down, in both inflation and interest rates does not undermine the long term financial viability.

The level of future rent increases has profound implications for the long term viability of the HRA. The government's policy is that rents should increase by CPI + 1% per year until 2024/25. Currently we do not know what government policy will be after that. If rents increase by CPI inflation from 2025/26, 0.5% per year less than the base Business Plan, the HRA balances would fall below £4.6m in the longer term and would be overdrawn by year 30. This also results in a shortfall in capital resources of £168m over 30 years because the reduction in rental income reduces the capacity for direct revenue financing or interest payments on borrowing.

Increasing rents by CPI plus 1% per year from 2025/26, 0.5% higher than assumed, would increase HRA balances to £241m after 30 years and would provide additional resources that could be used to enhance services, increase investment in existing homes or develop new homes without the need for additional borrowing.

Increasing management costs could result from the need to provide additional services perhaps in response to the requirement of the new consumer standards outlined in the Housing White Paper. However, a 5% increase in management costs would still result in a fully financed capital programme with HRA balances remaining at or above the minimum required over the life of the Plan.
Repairs and maintenance is the single largest element of expenditure in the HRA. Increasing costs by 10% would cause HRA balances to remain at around £4.6m over the next 30 years and would result in a shortfall in capital resources of £21m arising during the first 5 years. Increased costs could arise from higher materials, sub-contractor or labour costs. A 10% reduction in the cost of repairs and maintenance would allow the capital programme to be fully funded with HRA balances of £144m after 30 years.

As part of the HRA Asset Management Strategy, we have surveyed and are reviewing the condition and life expectancy of the high-rise accommodation across the City. This is likely to involve significant investment in consultation with local residents. The base business plan does not include the cost of any of the potential options available to redevelop the high rise accommodation. We have therefore looked at the impact of including an additional amount in the business plan spread evenly over 13 years from year 3 (2023/24) to year 15 (2035/36). This level of additional spending would allow HRA balances of £4.6m to be maintained over the next 30 years with a fully financed capital programme.

A 10% fluctuation, either up or down, in the core capital programme does not undermine the financial viability of the HRA. Cost pressures will come from the new fire and building safety requirements, the need to address the decarbonisation agenda as well as the costs associated with any potential changes to the decent homes standard. A 10% increase in the size of the core capital programme would involve an increase in HRA borrowing from £353m, in the base Plan, to £417m. HRA reserves would remain around £4.6m with a fully funded capital programme

Table 2 - Potential Scenarios That Could Affect HRA Affordability in Next 30 Years

Scenario	Description	Y £
Base Model		
Inflation and Interest Rates		
Inflation - 1%	Rent reduces relative to costs with HRA balances used to finance capital and interest on additional borrowing	
Inflation + 1%	Rent increases relative to costs resulting in higher HRA balances	
Interest - 1%	Reduces interest costs resulting in higher HRA balances	
Interest + 1%	Increases interest costs which limits borrowing capacity in next 10 years	
Interest and Inflation - 1%	Combination of two scenarios above	
Interest and Inflation + 1%	Combination of two scenarios above	
Annual Rent Increases		
Annual increase of CPI only from 2025/26	Lower rental income from compounding effect of reduced annual increases	
Annual increase of CPI + 1% from 2025/26	Higher rental income from compounding effect of greater annual increases	
Management Costs		
Management Costs + 5%	For example, increased staffing, supplies or recharge costs	
Management Costs - 5%	For example, reduced staffing, supplies or recharge costs	
Repairs and Maintenance Costs		
Repairs and Maintenance + 5%	For example, increased materials, fuel or sub-contractor costs	
Repairs and Maintenance - 5%	For example, reduced materials, fuel or sub-contractor costs	
Redevelopment of High Rise Accommodation		
Refresh Tower Blocks	Indicative costs in years 3 to 15 to pay for refresh of high rise accommodation	
Capital Programme		
Core Capital Programme + 10%	Additional investment in existing homes	
Core Capital Programme - 10%	Efficiencies or less investment in existing homes	
Additional New Build after Year 10	Additional housing to replace RTB sales and fully utilise retained RTB receipts	

Revenue Balances				Shortfall in Capital Resources				HRA Debt
ear 5 ’000	Year 10 £’000	Year 20 £’000	Year 30 £’000	Year 5 £’000	Year 10 £’000	Year 20 £’000	Year 30 £’000	Year 30 £’000
7,356	11,363	32,793	50,501	-	-	-	-	360,429
6,435	6,305	4,600	4,623	-	-	3,623	3,623	405,270
8,295	16,643	62,855	133,109	-	-	-	-	356,004
12,010	24,511	66,123	104,147	-	-	-	-	360,429
2,702	-	11,925	20,541	-	25,730	25,730	25,730	334,699
11,115	19,644	27,146	23,802	-	-	-	-	366,818
3,667	3,678	30,171	80,596	-	-	-	-	356,004
10,703	21,723	35,389	(9,256)	62,704	144,599	144,599	155,397	215,830
7,717	19,737	97,559	249,340	-	-	-	-	360,429
3,059	945	7,220	4,979	-	-	-	-	361,429
11,654	21,780	58,366	96,024	-	-	-	-	360,429
1,853	230	11,913	15,408	-	27,143	27,143	27,143	333,286
12,857	24,492	64,124	104,921	-	-	-	-	360,429
6,895	7,486	4,627	8,215	-	-	-	-	404,239
6,844	8,467	4,625	4,638	-	-	-	-	417,138
7,868	14,259	45,264	102,402	-	-	-	-	338,996
7,356	11,363	32,793	48,869	-	-	-	-	360,429

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