HOUSING REVENUE ACCOUNT (HRA)
BUSINESS PLAN 2024 - 2064

Building our capacity
for providing good quality homes and services

Version: 4 October 2024

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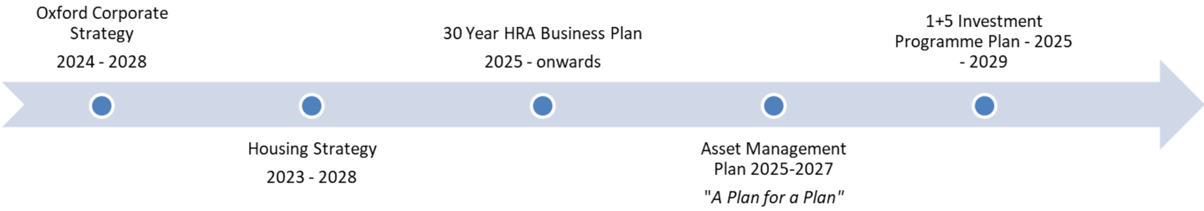
Our HRA Business Plan

1. Introduction and overview

Our HRA Business Plan sets out how we will best use the resources of the Council's Housing Revenue Account (HRA) to maximise our role as an ambitious local authority and social housing landlord.

The HRA Business Plan financials cover a period of 40 years from 1 April 2024 to 31 March 2064, but with a focus on activity in the first 5 years. In developing the Plan, we have considered the national context for local authority landlords and financing, the local Oxford context, as well as the impacts and challenges presented by new and increasing legislation and regulation.

The HRA Business Plan helps facilitate delivery of the Oxford Corporate Strategy 2024 to 2028, HRA Asset Management Plan 2025 to 2027, and the Housing, Homelessness & Rough Sleeping Strategy 2023 to 2028. Together, all four strategies and plans underpin our activities and ambitions as a Council.



About the Housing Revenue Account (the HRA)

The Housing Revenue Account is a ring-fenced account within the Council's General Fund. It is used to account for transactions relating to our council owned housing. Since the introduction of Self-Financing in April 2012 the Council has been able to keep all 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.

The HRA Business Plan sets out the money available for us to manage and invest in our existing social housing homes, while also funding the building of new council homes in the city. Crucially, it helps us deliver our ambitions for being *"a high-performing landlord, providing good quality homes and services that support thriving places and communities".*

The HRA Business Plan helps facilitate our work in:

- Providing housing management, repair and maintenance, and neighbourhood management services for tenants.
- Investing in existing homes and estates:
  - so they are well managed, safe, and maintained at the Decent Homes Standard.
  - so they are improved to meet new standards and expectations around energy efficiency and modern features and facilities.
- Building new homes so we can provide a range of much-needed additional good quality affordable social housing for residents living in the city.

The financial position of the HRA varies in line with changes in economic conditions, decisions made by the Council itself and national policy announcements. This means we should keep the HRA Business Plan under regular review so the financial projections can be updated to take account of changes in circumstances. This will enable us to identify any underlying risks and opportunities at an early stage and make decisions that optimise the position of theHRA over the short, medium and long terms.

It is important that we use adjustments to the outlook for the HRA to inform the ‘choices’ we make for the future delivery of services and investment. These choices are crucial, as the current projections indicate a need for us to take mitigating action to safeguard the financial sustainability of the HRA.

Since the current projections were produced, we have been told to expect changes to the underlying financial framework in the Budget announcements that are expected on 30 October 2024. This is likely to impact on future rent increase assumptions and the framework for generating and using RTB receipts. It is possible that future funding for development, regeneration and decarbonisation investment may also be affected. Accordingly, the current HRA Business Plan financials represent an interim position, pending further detail from the government.

2. Our operating context

Within the social housing sector, we face a period of rapid change that is reshaping what we do and how we need to deliver our strategic priorities, especially those relating to our asset management services. We must be 'agile', responding quickly to changes in national standards and local pressures and priorities, within an environment where costs are increasing, and finances are tight. This is a near universal position among social landlords, because of rising costs and interest rates, plus the effects of previous constraints on social rent increases. This presents a challenge for long term business planning.

Within our Oxford context, the HRA Business Plan needs to find the resources to address four key areas of activity.

i. Service improvements, including to meet increasing legal requirements and levels of regulation

Scrutiny of the social housing sector has focused attention on improving the safety, quality and sustainability of homes, with stronger governance and more accountability. We must provide tenants with assurance that we are investing sufficiently so homes meet all safety, legal and regulatory compliance standards, quickly and efficiently tackling repairs and addressing damp, mould and disrepair issues promptly when they arise. More broadly, we need to work across the Council and with partners to ensure our systems and processes, policies, procedures and structures support efficient and effective service delivery. We must also employ the principles of good procurement and contact management at all stages to deliver better quality services at a lower cost.

ii. Tackling the investment needs of our 'ageing' housing stock

We need to ensure we are addressing the significant investment needs of our city's 'ageing' housing stock, well over half of which is over 60 years old. This includes modernising homes to meet the current and future needs and expectations of tenants, investing wisely, drawing on data and intelligence on the 'performance' of our homes to ensure they are sustainable for the longer term. The challenge is compounded by a legacy of underinvestment over recent times, with a backlog of planned maintenance and building component replacements that are overdue. The HRA needs to fund a period of increased capital expenditure.

iii. Providing homes for a net zero carbon future

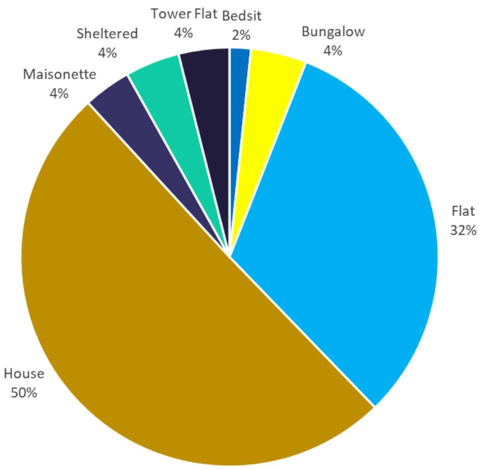
To tackle climate change, Oxford has set an ambition to be net zero carbon by 2040. There are also national targets for social landlords to ensure all homes have a minimum energy rating of EPC C by 2030. To meet the challenges of a net zero carbon future, we need to find the funds to carry out significant and costly retrofit programmes for homes over the next five years and beyond.

iv. Providing much needed new additional homes, and regenerating our estates

The Housing Revenue Account is especially under pressure as we seek to deliver the much-needed new additional homes our city needs. We have ambitious plans in place to acquire 352 and build a further 1,021 new, modern homes over the next five years, with most of the rented homes let on social rents. To deliver our plans it requires us to maximise our borrowing. At the same time, we are committed to helping deliver the Council's Thriving Communities Strategy. This puts a renewed emphasis on 'place-making' and the importance of neighbourhoods being safe and successful communities. We need to play a role in resourcing and directing how we will provide well-managed and well-maintained estates, with good quality green space, external and internal communal areas.

HRA housing stock overview

The City Council is the largest social landlord in the city, with nearly 8,000 homes that we own and let to those in housing need.



We own and manage almost 8,000 homes in the HRA with a mix of ages, types, and sizes. We have an ageing stock of properties, with well over half being over 60 years old. Half of homes are houses, whilst nearly a third are flats.

3. Providing services for tenants

As a council run social housing landlord it is crucial that we maximise the use of the Housing Revenue Account to provide a wide range of 'core' and 'added value' services to tenants and communities. The HRA provides the means for us to carry out our day-to-day housing management, repair and maintenance and neighbourhood management work, letting homes and helping sustain tenancies for some of the most vulnerable in our society. The cost of providing these critical services is considerable and we must therefore ensure they are well-managed, of high quality, and offer value for money.

The four main services we provide are:

- Housing and tenancy management, where we seek to ensure residents are supported to sustain successful tenancies.
- Homelessness, allocations and lettings, where we seek to maximise the use of homes for those in need.
- Repair, maintenance and planned investment, where we work to ensure homes are safe, free from hazards and disrepair, with building components renewed and replaced at the end of their life.
- Regeneration and development, where we plan, procure and manage our ambitious new build and regeneration programme providing much-needed new, additional, or replacement homes.

We recognise the need to improve the quality, consistency and value for money of these services. The HRA Business Plan therefore provides for sufficient resources to be allocated where needed, while securing efficiencies in how we manage some aspects, including the repair service, void management, and through stronger procurement and contract management practices. We need to effectively manage an HRA services improvement journey through a robust performance framework and a focus on service excellence, demonstrating compliance with the Consumer Standards set by the Regulator of Social Housing. In this way we can contain our day-to-day operating costs, releasing resources for capital investment in our existing stock and to fund our new development programme.

Our revenue operating costs are forecast at nearly £150m over the five years to 2028, around £30m a year. This is roughly split equally between general management costs and the cost of carrying out responsive and cyclical repairs.

Operating costs over first five years (at outturn)						
Revenue Operating Costs	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**Total**
	£000	£000	£000	£000	£000	£000
General Management	£13,975	£13,975	£14,325	£14,611	£15,237	**£72,124**
Other Management	£826	£827	£855	£859	£876	**£4,244**

Responsive & Cyclical Repairs	£12,735	£12,735	£13,180	£13,576	£15,597	**£67,823**
Other revenue expenditure	£972	£972	£996	£1,016	£1,037	**£4,994**
Total	**£28,508**	**£28,509**	**£29,357**	**£30,063**	**£32,747**	**£149,184**

4. Investing in our existing homes and estates

We are committed to being a good landlord, making sure we invest in maintaining and improving the quality of our existing council homes. To help us do this we are building our approach to strategic asset management through our HRA Asset Management Plan 2025 to 2027. This sets out our investment priorities for the next three years and lays the foundations for the development of a longer-term Asset Management Strategy.

- Ensuring every voice matters.
- Establishing the right governance arrangements for effective decision making.
- Providing good quality homes that are fit for the future.
- Working towards a net zero carbon future.
- Supporting thriving places and communities.
- Delivering an efficient and well-run service.

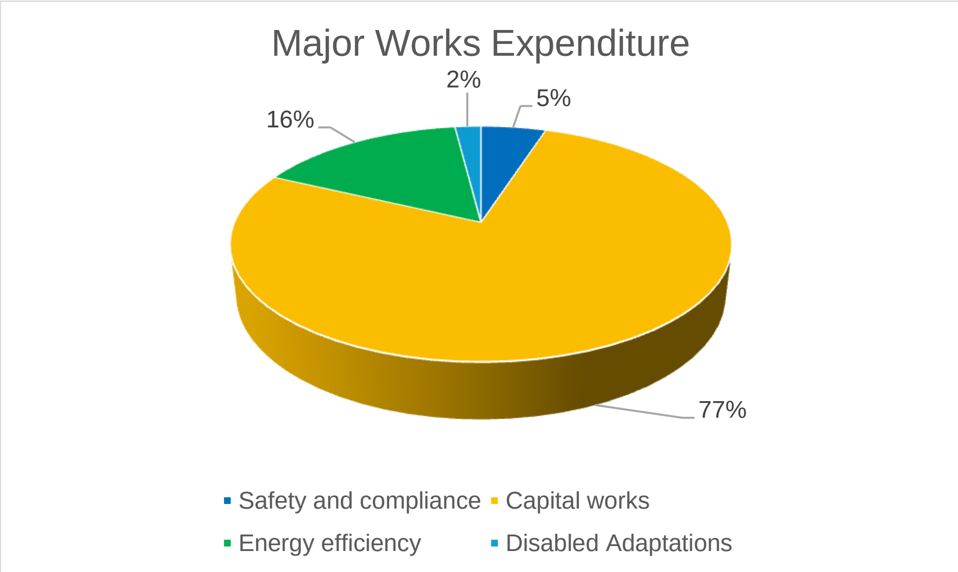
The six priorities include how we will listen and engage with tenants, deliver homes that are safe and in good repair, make decisions and use data to ensure we invest wisely to deliver homes that are 'fit for the future', and provide neighbourhoods where people want to live, work and play. The Plan sets out the resources needed to fund the works we need to deliver. However, there are choices we need to make around the availability of funds. This includes prioritisation of the works and the investment it delivers, along with any mitigating action that improves financial sustainability for the HRA. In determining our work programmes, we need to have strong governance practices in place, including how we will account for our progress.

Using recently collected stock condition survey data we have developed a detailed five-year investment plan covering the period to 2028/29. Over this period, we aim to catch up on overdue planned component replacement works whilst also delivering our target for bringing all homes up to at least Energy Performance Band C by 2030.

The headlines of our five-year capital programme are that it will see us spending over £176m, with expenditure of between around £25m to £38m a year from 2024/25 to 2028/29. Just over half (77%) of our expenditure will be on capital investment works in replacing and renewing building components, around 16% on our energy efficiency and decarbonisation works, around 5% on building safety and compliance works, and around 2% on provided disabled adaptations.

Major works expenditure over first five years (at outturn)						
Major Works Expenditure	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**Total**
	£000	£000	£000	£000	£000	£000
Major Works	£26,204	£25,955	£29,805	£29,420	£24,961	**£136,345**
Decarbonisation	£7,450	£6,750	£6,546	£6,743	£0	**£27,489**

Disabled Adaptations	£800	£750	£673	£693	£714	**£3,629**
Compliance Costs	£3,075	£2,575	£1,630	£1,679	£82	**£9,041**
Total	**£37,529**	**£36,030**	**£38,654**	**£38,534**	**£25,757**	**£176,504**



5. Building new homes

Oxford has long been one of the least affordable places to live in the UK, with a chronic housing shortage reflected in a waiting list of over 3,000 people for council houses. The insufficient supply of homes for those who need them and the challenges of affordability in the city means we have placed a high priority on delivering more genuinely affordable housing, including council housing, through our own building programmes.

We have therefore taken a strategic decision to maximise the potential of the Housing Revenue Account for funding a significant new build development programme. In making this choice we need to ensure the new build programme is affordable to the HRA and that the new homes do not require long-term subsidy from existing tenants. This may mean making further choices (e.g. around tenure and build quality) to ensure we only commit to financially viable developments.

As it currently stands, the HRA Business Plan includes just under £400m for the development or acquisition of 1,373 homes, funded in the period to 2028/29 and delivered up to 2030/31. This money is mainly available to us through borrowing but is also from Right to Buy receipts, grant funding and some Section 106 monies.

Around two thirds (67%) of the new homes will be let at social rents, with just 5 homes to be let on higher affordable rents. While these new homes will provide a rental income, our decision to let most of them on social rents means that the high costs involved in developing them are not recovered over the life of the Business Plan. However, the benefits of providing these new homes on social rents means we can better address the significant shortage of genuinely affordable homes, as well as losses of existing social rented homes through the Right to Buy.

A further 445 of the new homes will be available for shared ownership.

All the newly built homes will be delivered to current day standards in terms of quality, size and energy efficiency, and the mix of property types is being tailored to match demand. Overall, the new build programme of social and affordable rented homes will enhance the quality and sustainability of the HRA stock.

New homes delivered, by tenure								
New Homes Tenure	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**	**2030.31**	**Total**
	No. Homes	No. Homes	No. Homes	No. Homes	No. Homes	No. Homes	No. Homes	No. Homes
Social	284	280	91	29	0	102	137	**923**
Affordable	0	5	0	0	0	0	0	**5**
Shared Ownership	47	158	10	0	0	25	205	**445**
Total	**331**	**443**	**101**	**29**	**0**	**127**	**342**	**1,373**

Expenditure on new homes, by year								
New Homes Expenditure	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**	**2030.31**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000
Total	**£170,228**	**£89,004**	**£46,045**	**£49,641**	**£44,048**	**£0**	**£0**	**£398,967**

Financing new homes, by year								
New Homes Financing	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**	**2030.31**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000
Retained RTB receipts	£8,172	£7,432	£8,600	£6,313	£5,344	£0	£0	**£35,862**
Capital Grant	£17,736	£7,567	£0	£0	£0	£0	£0	**£25,303**
Borrowing & other funding	£144,320	£74,006	£37,444	£43,328	£38,703	£0	£0	**£337,801**
Total	**£170,228**	**£89,004**	**£46,045**	**£49,641**	**£44,048**	**£0**	**£0**	**£398,967**

6. Our HRA Business Plan – the financials

Introduction

Our HRA Business Plan is built around 40-year cashflows that are used to help inform the decisions we make in managing, maintaining and investing in the existing housing stock, as well as developing much-needed new council owned homes. We use specialist advisers to help develop and maintain our financial modelling. The financial modelling forms the backcloth for the HRA, giving an indication of financial strength based on the known position at any one time.

Our latest modelling has been developed during 2024. The summary position presented below is intended to provide a guide for the choices the Council may make during the forthcoming policy-setting and budget cycles in late 2024. The government has signaled a set of Budget announcements on 30 October 2024, which will alter the underlying financial assumptions for local authorities that are social landlords. We may therefore need to produce an updated set of projections to inform the 2025/26 budget-setting process.

The financial position of an authority's HRA varies in line with changes in economic conditions, decisions made by the Council itself and national policy announcements. It is therefore important that we update the financial projections regularly to reflect changes in circumstances. This will enable us to identify any underlying risks and opportunities at an early stage and make decisions that optimise the position of its HRA over the short, medium and long terms.

Basis for the HRA projections

Our latest projections cover a 40 year period, starting on 1 April 2024 and ending on 31 March 2064. They simulate all financial activity related to the HRA over that period, including:

- Day-to-day operating costs (such as general management, services to tenants, repairs & maintenance).
- Internal transactions (such as depreciation and use of the major repairs reserve).
- Revenue income (including dwelling rents, service charges and non-dwelling rents).
- Capital expenditure (such as major works and components for existing and new homes, decarbonisation of the housing stock, compliance with regulatory requirements, adaptations and the provision of new homes)
- Capital financing (including the use of grants, capital receipts, HRA-related reserves and balances and borrowing).

The process for preparing the projections includes:

- Establishment of baseline projections, which assume continuation of the

current service with little change.
- Stress-testing the Baseline to assess the impact of changes in circumstances and the underlying assumptions. This starts to identify potential underlying risks and opportunities.
- Develop a range of scenarios that illustrate the impact of actions that strengthen the authority's position. These are mostly actions the authority can take itself but can also include actions it might request from government.
- Establish a mitigated Baseline position, which forms the basis of the authority's forward plans.

We will need to update the HRA projections regularly in response to changes to data, circumstances and the underlying assumptions. This will allow us to continually adjust and refine our approach, while avoiding or minimising the impact of potential risks and maximising any benefit gained from emerging opportunities.

Information sources

The HRA projections utilise the best available evidence. This includes:

- Budgets and medium-term projections for operating costs and income until 2027/28.
- The authority's medium term capital programme until 2027/28.
- Current plans for developing and acquiring new homes in the period to 2030/31.
- Emerging results from an ongoing survey of stock condition.
- Details of existing loans related to previous HRA capital spending.

In addition, the projections consider:

- Inflation projections produced by the Bank of England.
- Receipts generated from continuation of the Right to Buy.
- National policy, with the maximum rent increase for 2025/26.
- Our expectations for interest rates on future borrowing.
- Intelligence gained from approaches taken at other local authorities.

Gaps in the data

While the information sources and key assumptions provide a good evidence base, there remain several gaps and uncertainties in the information available. Some of these are likely to be impacted by the October 2024 Budget announcements, and include:

- That the stock condition survey remains ongoing and there is a risk that investment requirements may continue to change as a more complete picture emerges.
- Little property-specific data to guide assumptions around the potential future costs of decarbonising of the stock.

- National policy on decarbonisation of the housing stock, with any associated regulatory requirements remaining unclear.
- National policy on rent increases from 2026/27 onwards being currently unclear.
- An unclear picture on the availability of external funding to pay for decarbonisation, meeting higher regulatory standards and for the building of new homes.
- Changes to national policy on the Right to Buy, which are expected to be announced in the Autumn of 2024. Some of the details are currently unclear and their potential impact has yet to be quantified.

These all represent areas of potential risk.

Baseline position

Key assumptions

The Baseline position assumes that we continue to deliver our existing plans and continue to manage the HRA in line with existing budgets and policies. These projections allow for:

- Acquisition by the HRA of 352 dwellings for social rent between 2024/25 and 2027/28
- An ambitious medium term development programme, which delivers a further 1,021 new homes, financed up to 2028/29 and delivered up to 2030/31.
- Delivery of our existing medium-term programme of decarbonisation works, which runs until 2027/28.

The projections also incorporate emerging information from our ongoing stock condition survey. They allow for long term investment in the housing stock to increase to £55,172 per property over 30 years, an average of £1,839 per dwelling each year (both at current prices). This represents investment in key components, such as kitchens, bathrooms, doors and windows and is at a level that is consistent with those that we see at comparable social landlords.

The projections assume underlying inflation forecasts for the consumer prices index (CPI) provided by the Bank of England, settling at the long-term government planning total of 2% from 2027/28. Key income and expenditure lines have been linked to these forecasts as follows:

- Rents increase by CPI +1% in 2025/26 (in line with policy announced by the previous government).
- Rents increase by CPI only from 2026/27 onwards. This is a prudent assumption, in the absence of a stated national policy, that is consistent with position taken by other social landlords.
- Building costs increase at CPI +1%. This recognises the potential volatility of these costs and is reflective of long-term trends.
- Interest rates payable on new borrowing reflect the authority’s own projections

over the medium term, settling at 3.5% pa from 2029/30 onwards.

The projected development programme makes use of retained Right to Buy (RTB) receipts in line with the rules that are currently applied. At the end of that programme the projections assume we will avoid potential penalties from under-utilising retained RTB receipts by either making them available to a housing association or returning them to government.

Our planned use of other capital receipts (primarily generated from the right to buy) has been mirrored until the end of the existing medium term capital programme. Thereafter, the projections assume that these receipts will be allocated separately by the Council and not made available automatically to pay for the HRA capital programme or repay HRA-related debt.

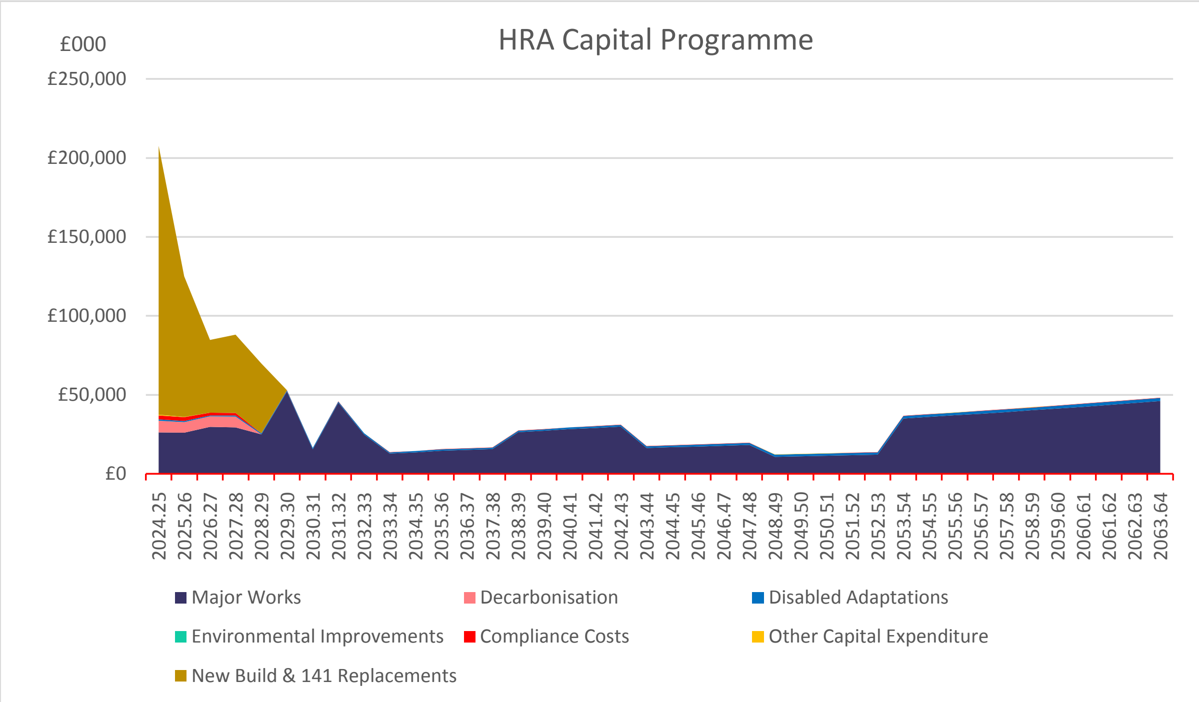
No allowance has been made for external funding of our spending and investment plans that have not already been secured.

Importantly, the Baseline does not allow for potential changes in policy, which may be announced by the new government in Autumn 2024.

Baseline capital programme

Baseline capital expenditure

The chart below shows our projected levels of capital expenditure over a 40 year period, from 2024/25 to 2063/64:



The investment in the housing stock is shown as Major Works (purple area). The brown area shows delivery of new homes. Existing decarbonisation plans are included in the pink area and the red area shows medium term expenditure to address matters relating to regulatory compliance.

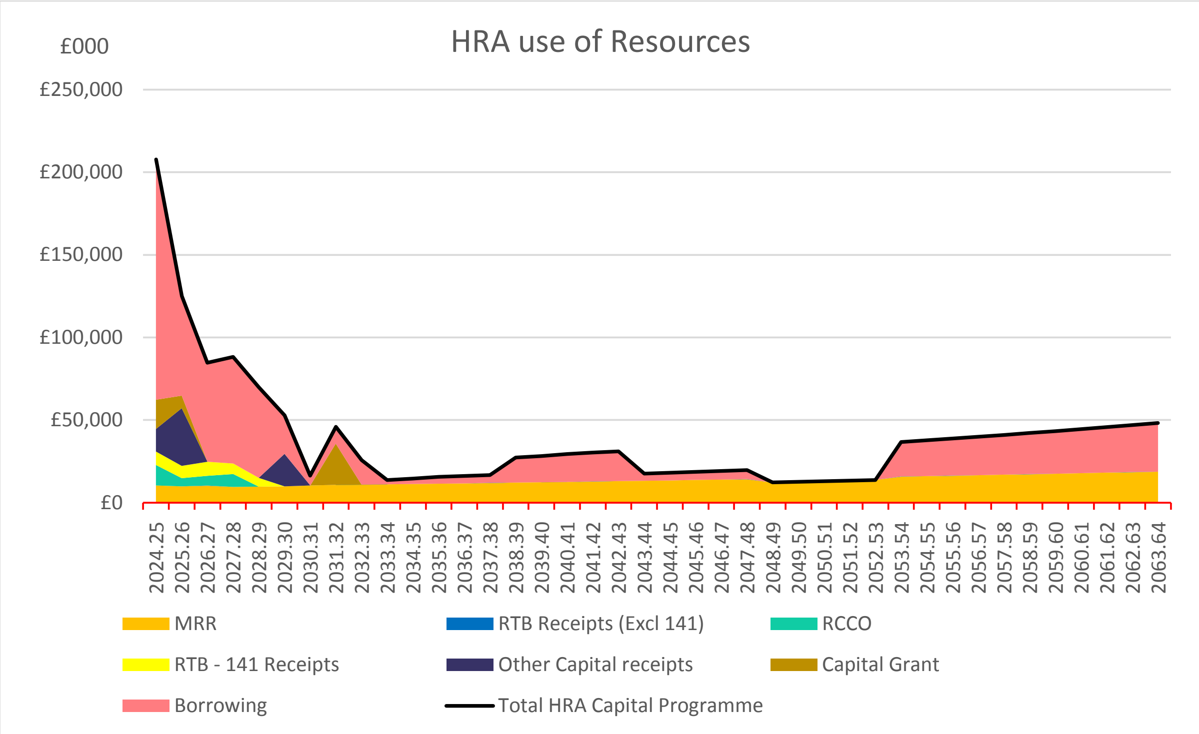
Major works spending steps up and down in line with anticipated programmes for replacing building components at the end of their useful lives.

Baseline capital financing

The following chart shows use of resources to finance the projected levels of HRA capital expenditure over the same 40 year period.

The gold area represents the Major Repairs Reserve, which is self-generated by the HRA from its depreciation charges and is used to pay for Major Works. The blue area represents other contributions made by the HRA, in line with our current medium term capital programme. The brown area reflects the use of capital grant, which is used to part-finance some new homes. The yellow area shows the use of retained RTB receipts to part pay for other new homes, which do not receive grant funding. The purple area shows our planned use of other capital receipts.

The pink area shows the use of borrowing to finance our HRA capital programme. Borrowing is the most expensive of the financing methods shown and represents the gap that remains, after allowing for the use of all other available resources.

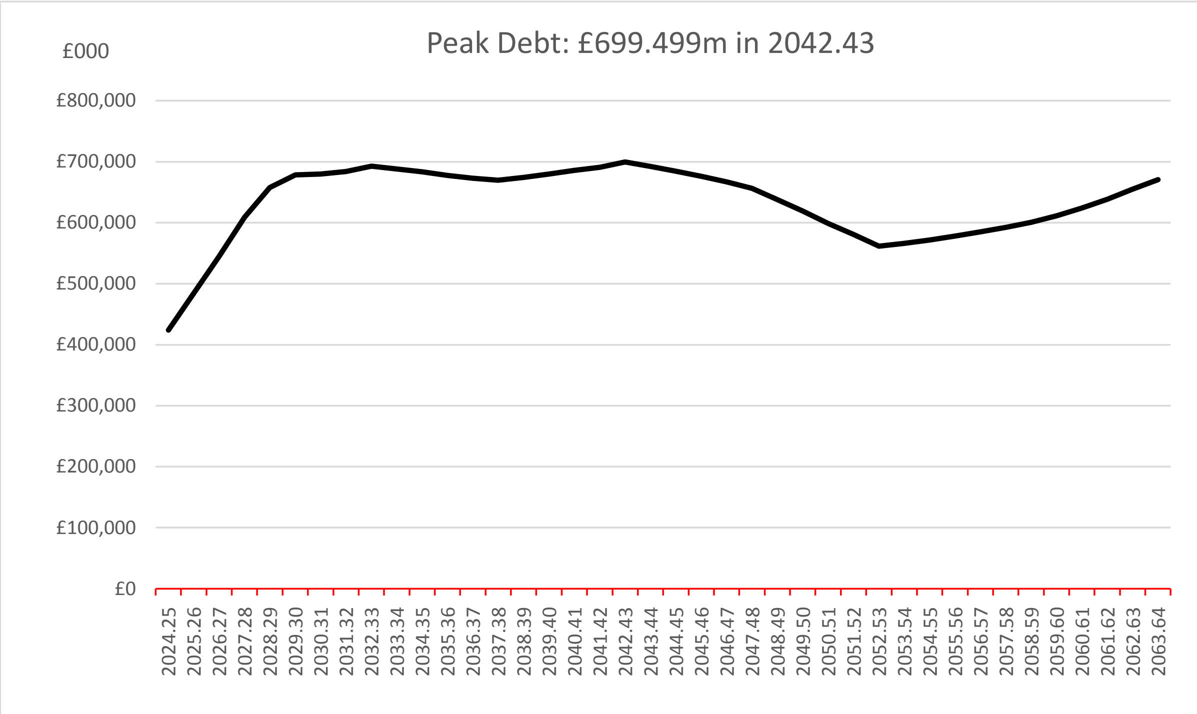


The Baseline capital financing projections show that we need to borrow extensively to deliver our medium-term development programme. We also need to borrow again to finance ongoing investment in our existing homes mid-plan and towards the end of the projections.

Affordability of Baseline borrowing levels

Baseline debt levels

The HRA projections allow for us to borrow to finance our HRA capital programme and to repay debt when we can afford to do so. This results in the following debt position:



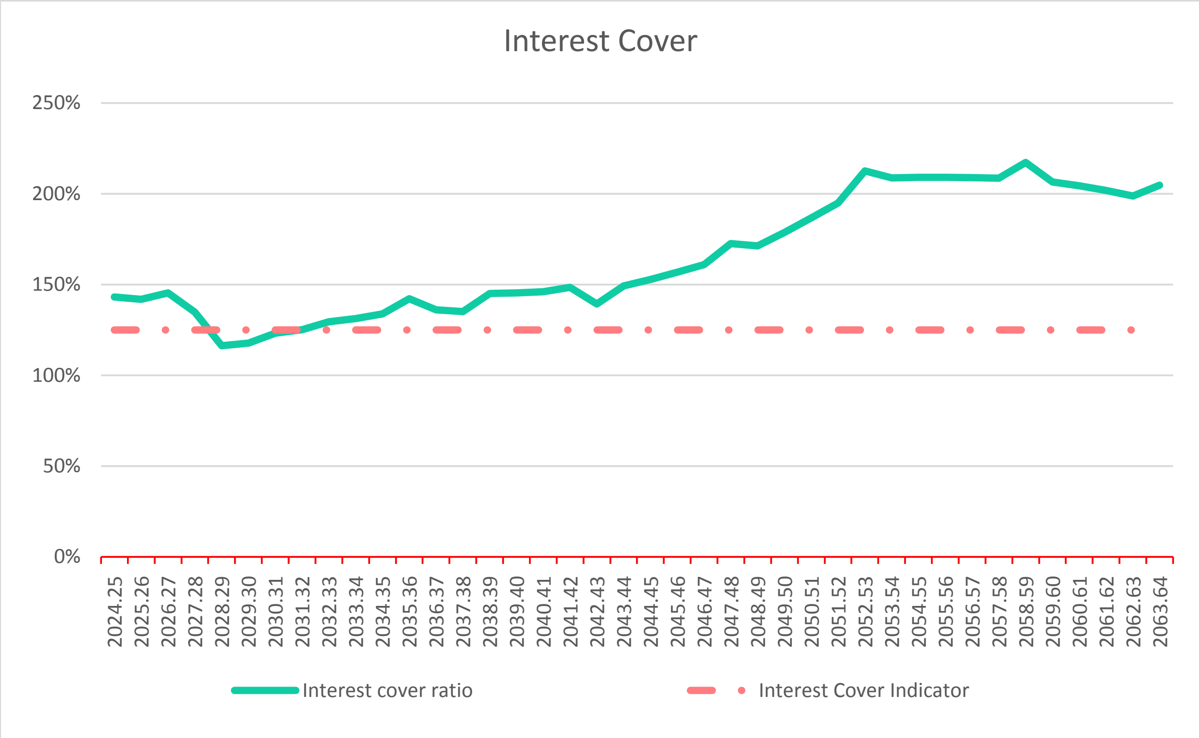
The line shows the HRA capital financing requirement (CFR), which is the principal measure of HRA debt. The level of debt increases over the medium term as we borrow to finance our medium-term development programme. Debt levels then stabilise until mid-plan, at which point the HRA can start repaying debt. However, debt starts to rise again for the last 10 years of the projections to finance a substantial expected increase in stock investment costs.

During the period, HRA-related debt rises substantially to a peak of over £699m in 2042/43 before reducing slightly. Importantly, debt starts rising again in the last few years and closes at £671m.

A higher level of borrowing means the HRA needs to incur substantially higher interest charges than in recent years. The continuing high and increasing level of debt at the end of the period also exposes us to potential interest rate risk.

Baseline affordability levels

Alongside the HRA debt levels above, the following chart provides an indication of the affordability of the projected borrowings:



The chart uses interest cover performance to measure affordability of the Baseline projections. Interest cover measures the ability of the HRA surplus each year to meet the interest charges on the required HRA debt and is shown by the green line. The dashed pink line shows a minimum performance guideline, which is set at 125%. When performance is at the level of the pink line the HRA surplus is enough to cover the full interest charge, with an extra 25% in hand. Accordingly, the minimum level provides some flexibility for us to respond to emerging pressures or undertake further investment.

Baseline interest cover performance for the HRA is above the minimum, except for three years (2028/29 and 2030/31), when it dips below. This coincides with the end of the current development programme and indicates that the HRA exceeds its maximum affordable debt level during that period. From 2031/32 onwards performance improves, showing that the position then becomes more affordable over time.

Baseline position – key messages

The Baseline HRA projections include for our ambitious development programme, which delivers 1,373 new homes. It also allows for representative levels of ongoing investment in existing dwellings. However, these plans require much higher levels of borrowing and the HRA starts to struggle to afford this debt between 2028/29 and 2030/31.

The charts show that the HRA has insufficient flexibility to respond to further regulatory and other emerging pressures, plus new initiatives over the medium term. It is also important to note that the Baseline does not allow for the prospect of substantial additional decarbonisation works after 2027/28.

The position of the HRA is therefore borderline affordable and would deteriorate if further investment requirements and pressures are included. We therefore need to take action to improve the underlying financial health of the HRA.

Sensitivity analysis

Analysis of the HRA projections shows they are very sensitive to changes in key modelling assumptions. For example:

- Increases in the underlying rate of general inflation are positive, as income from rents rises by more than costs. On the other hand, lower rates of general inflation have a negative impact.
- Increases in building costs that are not accompanied by an equivalent rise in underlying inflation (and, particularly, rents) have a substantial detrimental impact.
- Small variations in the interest rates payable on future loans have a substantial impact on the affordability of HRA-related debt. Higher interest rates reduce affordability and vice versa.
- Any decision by the Council to raise rents by less than the maximum amount permitted by national rent policy has a significant adverse impact.

It is important that we keep track of these factors and continue to inform our decisions with information on the impact of key sensitivities and alternative scenarios.

Options for improving the position

There are a range of potential actions we can choose to take to help improve the financial position and resilience of its HRA. These include:

- Reducing the requirement for debt by scaling back the capital programme.
- Using asset disposals to generate additional capital receipts for use as an alternative to borrowing.
- Reallocating other corporate resources and receipts for use in financing the HRA capital programme or to repay HRA-related debt.
- Maximising the income we generate from rents and service charges.
- Minimising the day-to-day costs of managing and maintaining our homes
- Ensuring that new developments are built and operate to strict financial viability requirements, so they reduce financial pressure on the HRA.

Ideally, we need to consider implementing a range of actions that help to improve the financial sustainability of the HRA. Any such measures would need to be introduced as part of a managed medium term improvement programme.

Scenarios

Description of scenarios

Alongside the Baseline projections described above, this section considers three additional scenarios:

A. An improved baseline, which allows for an illustrative package of corrective measures.
B. Scenario A, plus the effects of a positive change in national rent policy.
C. Scenario B, plus representative levels of decarbonisation works.

The package of corrective measures included in Scenario A includes:

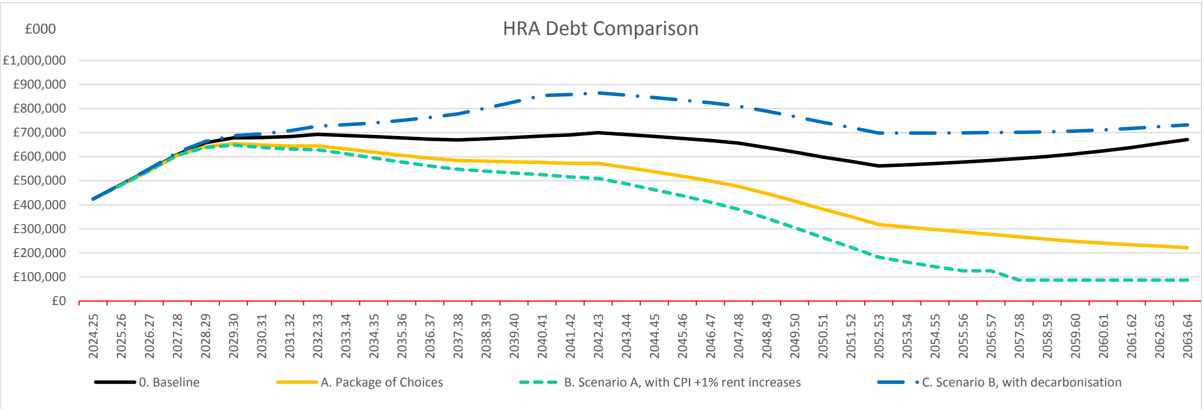
- A programme to reduce the Baseline costs of general management and repairs and maintenance by £2.700m over 5 years, starting in 2025/26.
- Increasing Baseline levels of service charge income by £1.000m over 5 years, starting in 2025/26.
- Implementing a programme for disposing of appropriate dwellings on the open market to produce capital receipts that can part-pay for the HRA capital programme. The scenario allows for the disposal of 10 dwellings per annum for 10 years, starting in 2025/26.

Scenario B builds on the measures in Scenario A and includes the effects of a national rent policy that permits rent increases at CPI+1% until 2029/30 (a further 4 years).

Scenario C adds the costs of further decarbonisation works to Scenario B. Under this scenario the cost of decarbonisation works increases to £26,600 per dwelling by 2040 (at current prices).

Scenario debt comparison

The chart below compares the HRA debt positions for the Baseline, plus scenarios A, B and C:



Scenario A (gold line) plots the impact of the package of corrective measures described above on the Baseline, which is shown by the black line. The measures introduced would reduce debt levels to lower levels over the medium term and result in the scope for steady repayments of debt until the end of the period.

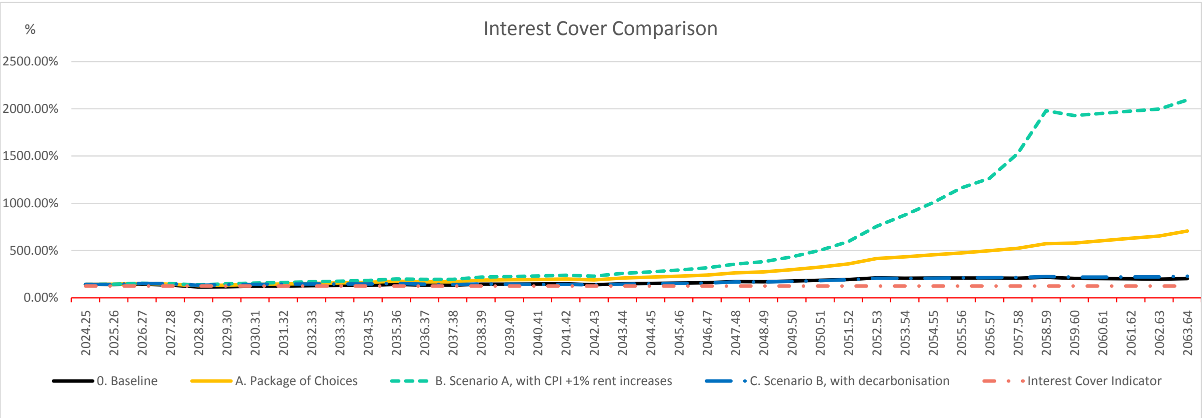
Scenario B (green dashed line) shows the further effect on debt of being able to increase rents by CPI+1% for a further four years. Under this scenario, we could repay all the new borrowing required to deliver our programme by 2054/55, at which point we would only be left with existing loans that are due to be repaid in later years. Scenario B would permit us to generate additional HRA balances from 2055/56, which could be used to pay for future investment as an alternative to borrowing.

Scenario C (blue dashed line) increases the level of decarbonisation works to representative levels. This requires substantial additional borrowing until 2042/43. However, the extra income generated from the higher rent increases introduced by Scenario C means that debt returns to Baseline levels towards the end of the period.

These charts show the substantial potential impact of changes in the assumptions. The package of measures under Scenario A reduces operating costs, increases operating income and introduces additional funding. These provide us with the flexibility to reduce debt levels. Scenario B has a similar impact, by increasing the rent that can be generated. Scenario C shows that a substantial increase in spending would push debt back up again, unless it can be mitigated by increased funding or further corrective measures.

Scenario affordability comparison

The following chart compares the affordability of the Baseline with scenarios A, B and C:



The Baseline is reflected by the black line in this chart. Scenario A (gold line) shows that affordability increases as the associated package of corrective measures helps to reduce debt levels. Scenario B (green dashed line) shows greater improvement, as higher rent increases enable the authority to minimise debt from 2054/55 onwards.

Even though Scenario C (blue line) results in higher debt levels than the Baseline, it continues to produce similar levels of affordability because of the corrective measures and additional rents introduced by the other two scenarios.

It is clear that changes in the underlying assumptions can have a substantial impact on financial sustainability of the HRA. It is in the Council's interests to actively explore all options for reducing costs, maximising income and generating funding for the HRA. This will help us build financial resilience and respond effectively to emerging risks and opportunities.

Safeguarding a sustainable HRA

The Baseline position for the HRA is borderline affordable over the long term. Scenario analysis shows that the Baseline does not provide sufficient financial capacity for us to respond to emerging pressures.

We therefore need to review the options and prepare a plan for implementing over the medium term, that produces a more resilient and financially sustainable HRA. The plan should prioritise choices that:

- Maximise income from rents and service charges.
- Minimise costs (including revenue operating costs, capital investment and development).
- Help to mitigate other emerging risks.

Scenario A may represent a good starting point for producing a more resilient and financially sustainable HRA, that we can develop into a deliverable plan of mitigation.

Crucially, actions taken would be insufficient to address further pressures that would arise from adopting a further plan to decarbonise the council housing stock. However, Scenario C shows that decarbonisation could become more affordable if the Government is able to provide support in the form of a more generous medium term national policy on rent increases for social housing.

We therefore need to make this case to government and lobby for additional support. Types of support include securing a commitment to a medium to long term national policy on increasing rents by more than CPI, as well as funding for decarbonisation and stock investment works that are required as part of enhanced national policy requirements.

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