HRA Business Plan Model – "Potential Future Investment Scenarios"

1.0 Introduction

1.1 This version of the BPM (the "Potential Future Investment Scenarios BPM") builds on the Baseline BPM (at Annex B), which includes only approved revenue budgets and capital expenditure together with the "need to spend" on existing housing stock. This version does not incorporate possible changes to borrowing arrangements, which are set out in Annex D.

1.2 This iteration of the baseline BPM is draft and will be finalised after the consultation to the main HRABP and as part of finalising the draft budget in December 2020 where it will also be subject to an independent external review.

1.3 The Scenarios BPM also includes the estimated financial impact of potential development schemes that could be brought forward (subject to viability and affordability) and the current modelled increases and decreases to revenue and capital spend, and consequent changes to income, borrowing, and debt costs. These are referred to as the "Scenarios". Inclusion of items in these scenarios does not reflect any commitment to delivering them, which would be subject to VFM scrutiny and subsequent budget approvals.

1.4 These schemes are at a range of stages of development, from ready to be proposed for in-year changes to budgets, up to those where plans, timescales, and estimated costs are very uncertain. All of the schemes are still subject to sign off of financial viability and funding.

1.5 As new revenue and capital budgets are proposed and approved, the individual scenarios will move into the Baseline BPM.

1.6 The scenarios modelled in this BPM are those described in the relevant portions of the BP.

1.7 The Scenarios BPM sees current housing stock of 12,071 reducing by 925 RTB sales and 759 demolitions and increasing by 2,808 New Builds & Acquisitions, to a total of 13,195 at the end of the BP period.

2.0 Content of Potential Future Investment Scenarios

2.1 The scenarios can be grouped into categories as follows:

- Management & Repair costs –£1.12m in clienting costs in the Asset Management team, £0.25m for Sheltered Housing door entry systems, and additional provision for Pest Control costs in Housing Operations
- New Build & Acquisition – £287m for the costs of adding 1,258 new council houses to the stock (an average cost of £228k)
- Regeneration – £304m for the costs of regeneration schemes which will improve the existing stock and environment, and also replace and/or add 1,402 units to the housing stock (at an average cost of £217k including the cost of regeneration on top of build costs)

2.2 The figures shown above are the changes to the inputs to the BPM, and do not include indirect costs and incomes (such as interest on additional borrowing and increased rent income) which are shown in the BPM outputs.

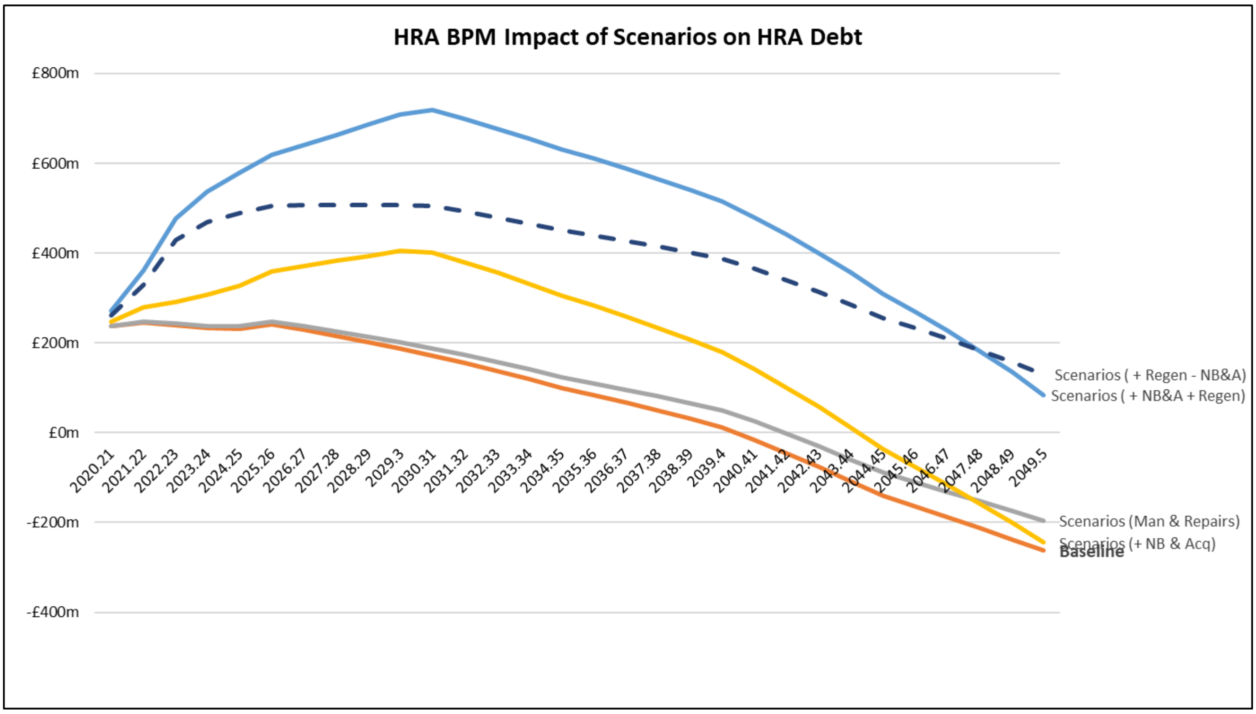
2.3 Inclusion of a scenario in the Scenarios BPM does not signify any commitment by the council to delivering the scheme or the outcomes described in the BP, or to the accuracy of the estimated costs included. Omission of a scheme from these scenarios does not preclude its later inclusion once plans and cost estimates are worked up. Schemes that are approved (and will therefore be included in future Baseline BPMs) will be subject to scrutiny and VFM appraisal through the usual budget-setting process.

3.0 Scenario Financial Analysis

3.1 The following chart shows the cumulative impact on the outstanding debt at the end of the BP period of the groups of scenarios:

- Baseline – as set out in Annex B
- Scenarios (Man & Repairs) – the Baseline position plus additions to Management and Repairs spend
- Scenarios (+ NB & Acq) – the Baseline position, plus Management & Repairs, plus New Build and Acquisition schemes. This is a lower final figure than the above, signifying that increased rent income from the new properties is exceeding the capital and revenue costs of the new stock.
- Scenarios (+ Regen) – the Baseline position, plus Management & Repairs, plus New Build and Acquisition, plus Regen schemes. This is a significantly higher final figure, reflecting the high proportion of regeneration spend which does not increase income through additional rents on new stock.
- Scenarios (+ Regen – NB&A) – shown in a dotted line the Baseline position, plus Management & Repairs, plus Regen schemes, but without New Build and Acquisition. This is the highest final figure, reflecting the additional income from new stock no longer offsetting additional costs.

CHART 1



3.2 The additional impact on debt is not the same as the added expenditure set out in para 2.1 as the BPM also provides for inflation, additional interest on the additional borrowing, additional management & maintenance costs on new stock, and additional income from new stock.

3.3 The additional debt can also be summarised incrementally as shown in the following table. Although the total debt would be the same, the individual figures shown would differ if the scenarios were modelled in a different order.

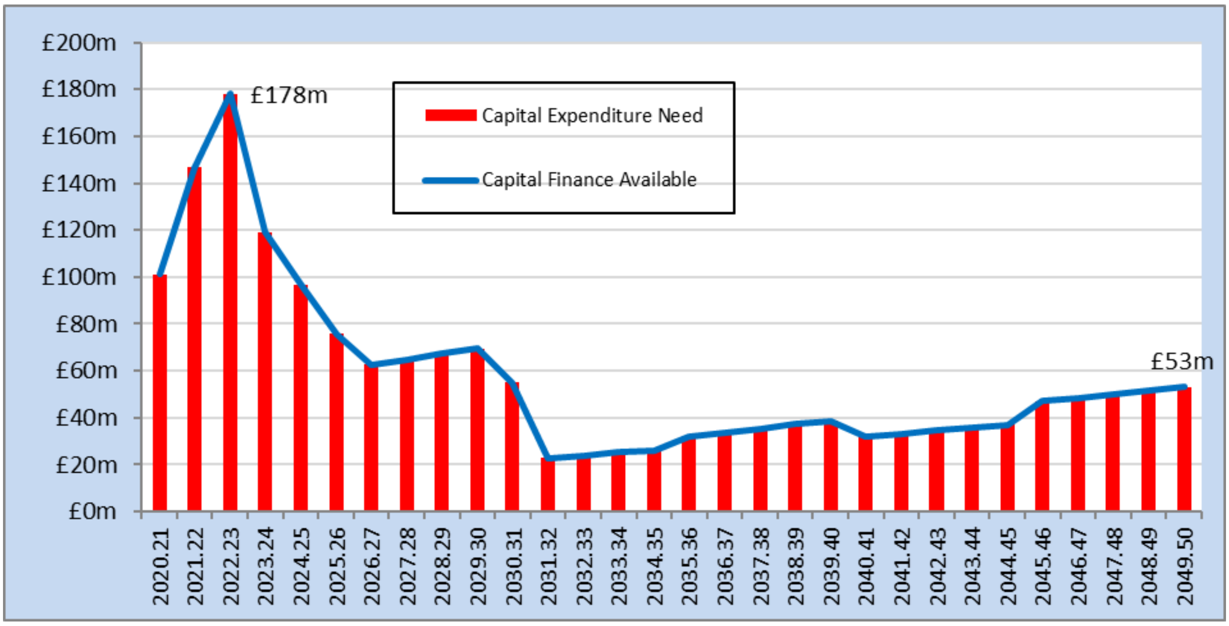
TABLE 1

Scenario	Debt Outstanding/ (HRA Balance) £m	Incremental Change Added/(Reduced) £m
Baseline	(262.372)	-
Scenarios (Man & Repairs)	(196.541)	65.830
Scenarios (+ NB & Acq)	(244.954)	(48.412)
Scenarios (+ NB&A + Regen)	83.743	328.697

4.0 Summary Scenario Financial Analysis

4.1 Capital Expenditure & Resources

CHART 2

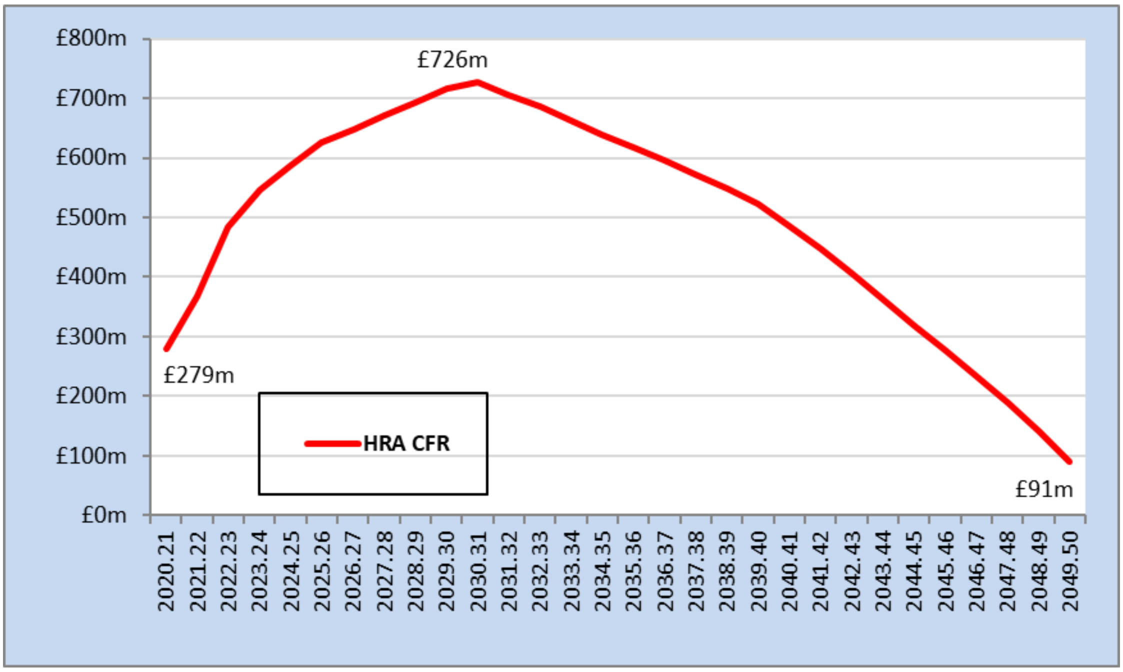


4.2 This shows the impact, if all of the scenarios were approved at their current cost estimate, on future capital expenditure that will be met from HRA resources. The £178m peak in early years is largely the result of additional spend on new build and regeneration schemes.

4.3 In total, the Scenarios BPM shows a total of £722m in additional capital investment over the £1,013m shown in the Baseline BPM.

4.4 HRA Borrowing

CHART 3



4.5 This shows that the capital expenditure required (as above) would result in an increase in HRA borrowing, with peak borrowing of £726m, but with outstanding debt reducing to £91m by the end of the BP period, as opposed to being fully repayable in the BP period in the Baseline.

4.6 The Scenarios BPM shows, if all schemes were to proceed as projected, a greater need to borrow than the Baseline BPM and an increase of £472m in peak borrowing.

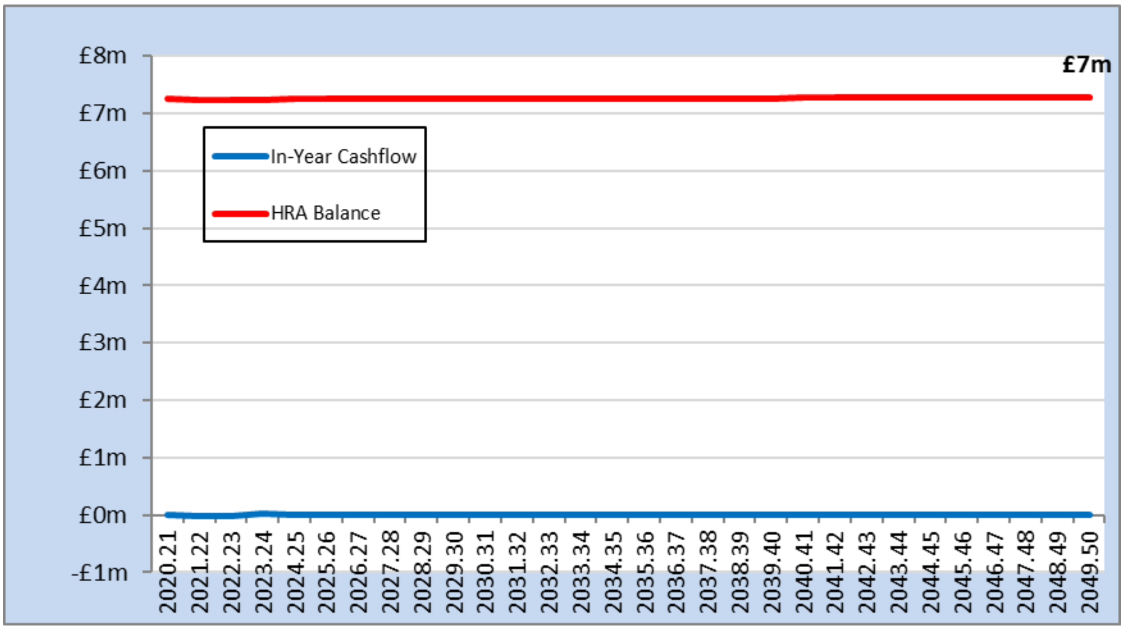
4.7 The additional Acquisitions and New Build investment increase rent income significantly, but not by enough to fully offset the additional management, maintenance, and interest costs created by the investment so that debt is not fully repayable within the BP period. Further analysis will be required to look at the longer term in order to establish the length of the period over which the debt could be fully repaid.

4.8 If debt levels were to continue to increase, rather than being repayable, the HRA might be considered to be less financially viable, and it would be necessary to review and re-profile or reduce planned expenditure in order to restore financial viability.

4.9 We will also need to ensure that there is sufficient headroom within the HRA BP to manage changes in future costs and income as these vary from the modelled assumptions in this BPM update. In Annex B we have highlighted the impact of relatively small changes to key assumptions on the HRA BP and BPM and future viability.

4.10 HRA Balances

CHART 4



4.11 This shows that the balances available in the HRA across the BP will reduce by £255m from the Baseline BPM position of £262m to a figure of £7m (the prudent minimum balance) since all available balances are still being applied to debt reduction.

4.12 The overall movement from the Baseline BPM position of an HRA Balance of £262m to the Scenarios BPM's HRA Balance of £7m with £91m in outstanding debt is a total of £346m.

5.0 Sensitivities

5.1 The Scenarios BPM will be susceptible to similar sensitivities to the Baseline BPM, though in some areas accentuated by the greater capital spend and revenue costs.

5.2 The main additional sensitivity is to the accuracy of the assumptions within each scenario of the estimated costs, the profile of spend over time, and the financial returns in additional rent income.

6.0 Use of 1-4-1 Receipts and Homes England Grant

6.1 Current forecasts are that spend on the Housing Delivery programme in the Scenarios BPM will exceed what can be 30% funded from available 1-4-1 receipts (by £268m over the next three years alone). Our ability to charge LHA-level rents can be maintained by using a lower proportion of 1-4-1 receipts than the maximum of 30% allowed and previously modelled, but the dearth of these receipts means that the gap is filled in the BPM by additional HRA borrowing with associated interest costs to the HRA. This will make housing delivery more expensive and so schemes will need to be reviewed.

6.2 We are currently exploring with Homes England the possibility of applying grant funding to replace 1-4-1 receipts where appropriate. The Scenarios BPM includes an assumption that £35m of HE grant will be secured.

6.3 HE grant cannot be combined with 1-4-1 receipts, and the amounts of grant available (and any constraints on rents chargeable on grant-funded stock) are still uncertain. It is not yet possible to say, therefore, whether HE grant would be net positive for the BPM.

6.4 The outcome of the need to balance 1-4-1 funding, HE grant, and additional borrowing will affect the long-term costs and benefits of new build and regeneration schemes, and these impacts will need to be reviewed as part of the VFM appraisal of each scheme.

7.0 Refinancing Risk

7.1 The BPM does not reflect any refinancing risk, which is the risk that when renewal of existing borrowing or new borrowing is required, interest rates may have risen to above those modelled.

7.2 Since this version of the BPM is based on current “One Pool” funding arrangements, this risk is a corporate rather than HRA-specific issue.

7.3 The issues around refinancing risk under proposed “Two Pool” arrangements are set out in section 7 of Annex D.