Appendix A

HRA Business Model

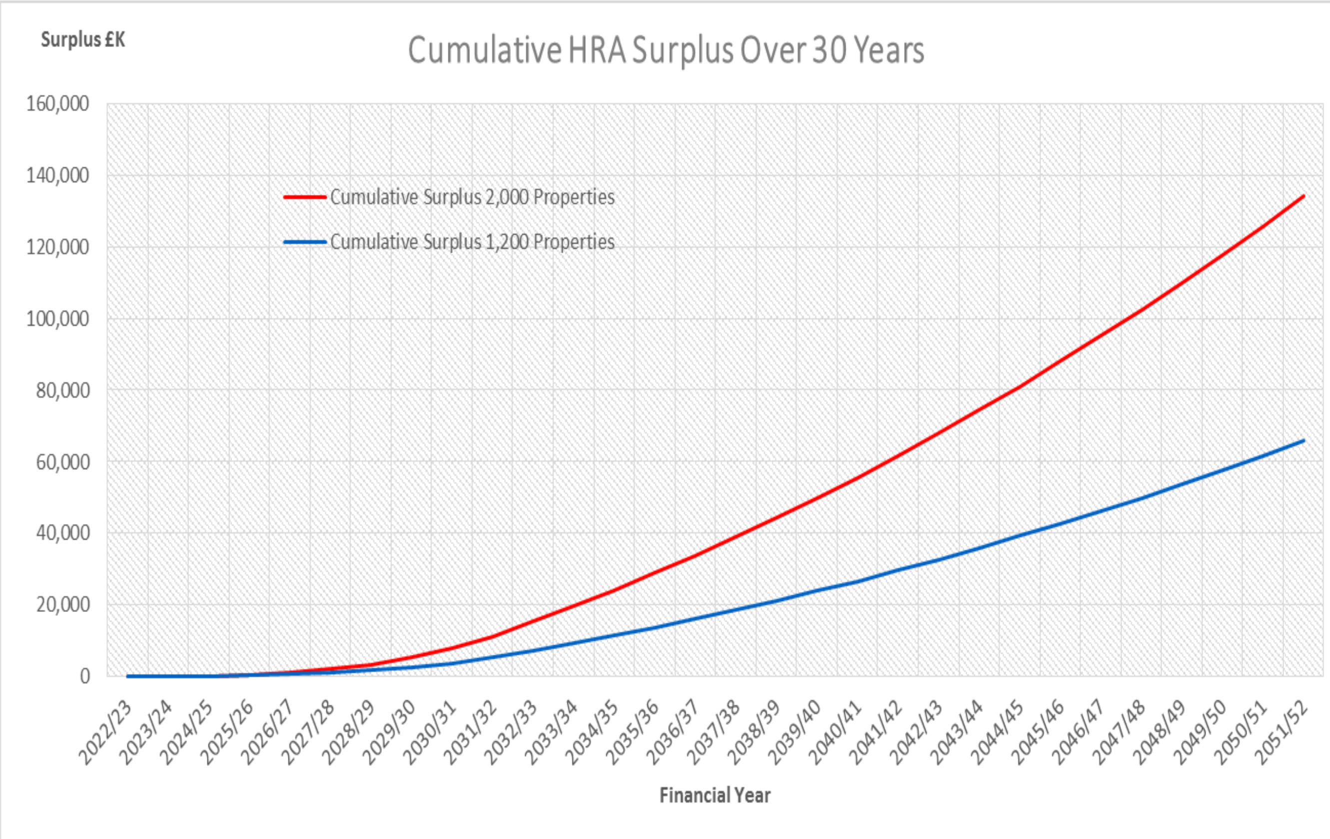
1 Introduction

1.1 The HRA Business Model shows a surplus of £65.79m over 30 years for the 1,200 model and £133.97m for 2,000 properties. This is set out at Table 1 below. The profile of these surpluses over the 30 years is illustrated in chart form at Table 2. The Baseline section that follows discusses the assumptions on which the model has been built.

Table 1 30 Year Income and Expenditure Account

Summary of Income and Expenditure	1,200 Properties	2,000 Properties
	2022/23 to 2051/52	2022/23 to 2051/52
INCOME	£K	
Dwelling Rents		
General Needs	294,458	488,738
Voids	(7,361)	(12,218)
Net Rental Income	287,097	476,519
Non Dwelling Rents	0	0
Charges for Services and Facilities	0	0
Contributions Towards Expenditure	0	0
Total Income	**287,097**	**476,519**
EXPENDITURE	£K	£K
Supervision & Management	21,043	24,375
Supervision & Management (Recharged)	5,941	5,941
Repairs & Maintenance	42,740	71,253
Cyclical Repairs	53,072	88,262
HRA Share of Central Departments	11,081	12,816
Audit Costs	1,280	1,280
Rents, Rates, Taxes and Other Charges	0	0
Debt Management Costs (Interest Payments)	84,720	136,241
Increase in Bad Debt Provision	1,435	2,383
Revenue Expenditure Funded from Capital Under S	0	0
Total Expenditure	**221,312**	**342,549**
Net HRA Surplus/Deficit	**65,785**	**133,970**

Table 2 **Profile of Cumulative HRA Surplus**



2 The Baseline

2.1 The two models are based on building the HRA to totals of around 1,200 and 2,000 properties at an even pace over the first 10 years. It is planned that the first two years will see a concentration on the purchase of ready built properties that will generate a cash flow and allow for the development of new build housing thereafter. This size of HRA will allow the Council to make a telling contribution to reducing the shortfall in affordable housing supply while reaching a critical mass that allows specialist staff to be employed and safeguard the continuation of the HRA.

2.2 In addition to a responsive repairs service, the plan takes account of the need for the cyclical replacement of major components within properties. This is timetabled over a 15 to 20 year period and deals with the renewal of doors, windows, bathrooms, kitchens and roofs. This is financed through a depreciation charge that is recycled through the Major Repairs Reserve (MRR).

2.3 Provision is made within the model for the ongoing revenue costs of specialist housing staff and management and the cost of repairing and maintaining properties to a high standard. These costs are inflated over the timespan of the model using the most appropriate estimated rates.

2.4 Income is derived from dwelling rents. The rent is set at Local Housing Authority rates (LHA), subject to the MHCLG guidance on affordable rents. Annual increases are calculated in line with government policy and the Rent Standard published by the Registrar of Social Housing.

2.5 The largest item of revenue expenditure is interest on loans. As each opportunity to purchase or develop property is identified, a rigorous costing exercise will be undertaken to ensure that each project delivers a surplus to the HRA in line with the business model. This will ensure that future revenue streams can service interest payments as well as all other revenue costs.

2.6 Forecast Right to Buy (RTB) sales are included in the model after the initial 15 years as until then the Council cannot make a loss from them.

2.7 The capital expenditure within the model consists of three elements. In the first two years there is an emphasis on acquiring street properties. A concentration on new build takes place thereafter and the model assumes that Homes England will be providing grant funding to assist. The third capital element is the cyclical replacement of housing components funded through rental streams.

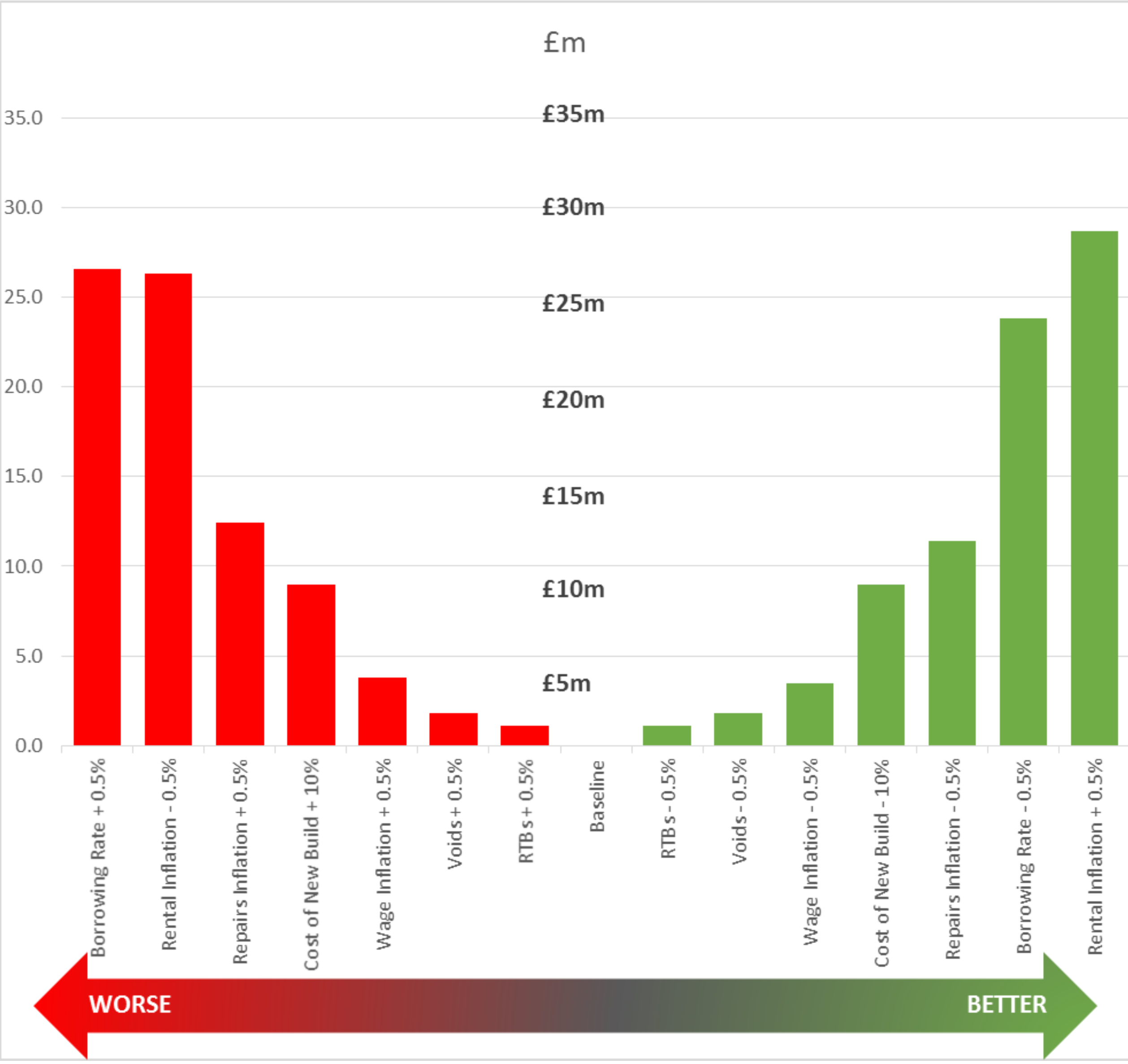
3 Analysis of the Reported Model Outcomes

3.1 The main metrics and assumptions upon which the model is built are set out at Table 3 below. The effect that a movement in the assumptions behind the model has on its viability is then illustrated at tables 4a and 4b.

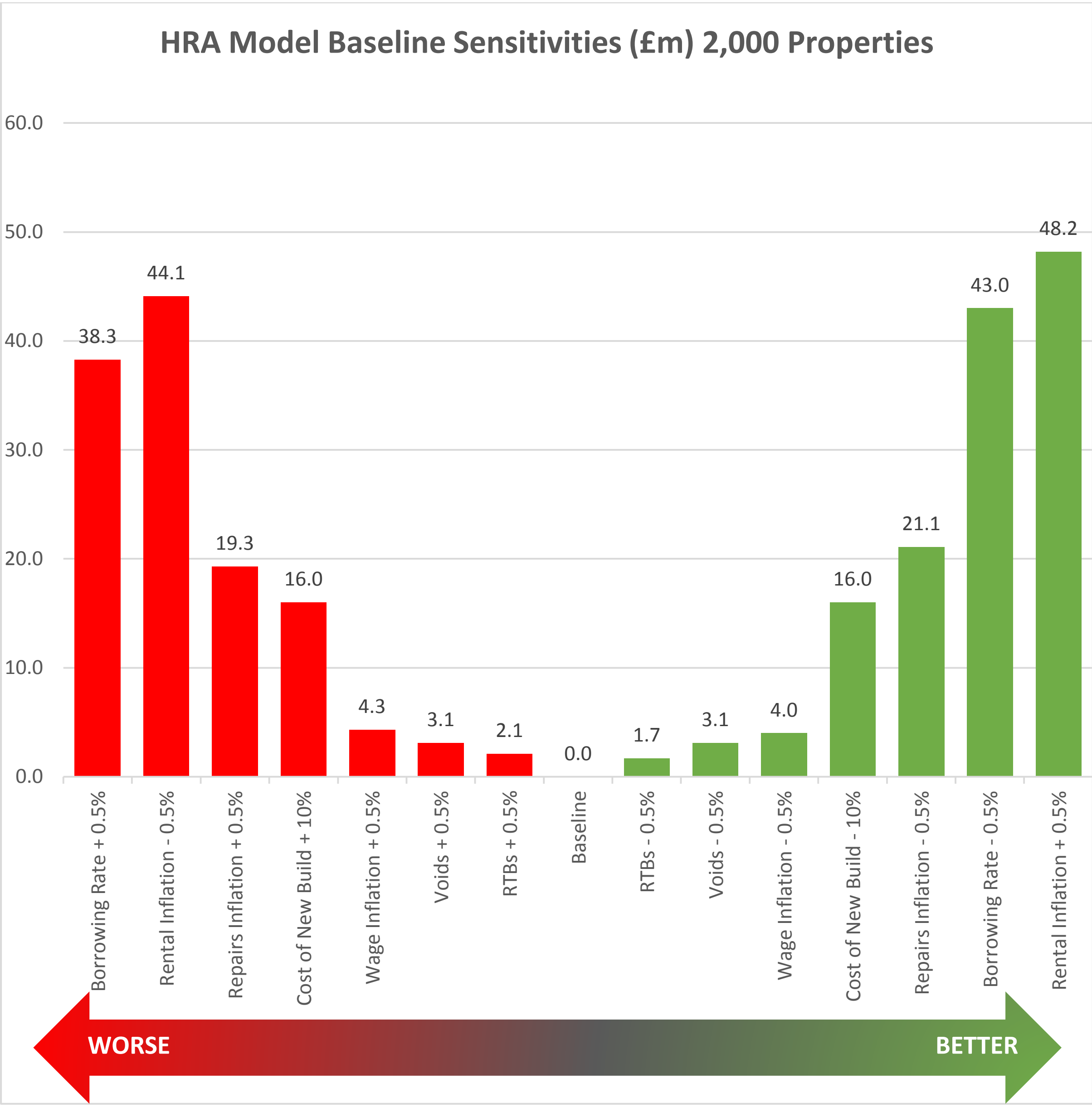
Table 3 **Metrics and Assumptions**

Metric		Assumption	Comment
Wage Inflation		**1.00%**	Reflects current trends.
Building Inflation (BCIS)		**2.75%**	Differential over wage inflation reflects historical trends.
Rental Inflation		**1.50%**	Based on governmental guidance.
Borrowing Rate		**2.23%**	Mirrors recent available borrowing rates.
Collection Rate		**98.50%**	Reflects a prudent view of likely events.
Void Rate		**1.50%**	As above. This is a prudent figure compared to likely actuals.
Right To Buy Take Up		**0.50%**	After 15 years.
Cost of New Build	**Land**	**£40,000**	Based on expert advice and recent trends.
	Buildings	**£130,000**	This is an average across unit sizes.
Prudent Minimum Balance		**Variable**	Based on a calculation of one years rent throughout the model.

Below Table 4a HRA Model Baseline Sensitivities – 1,200 Units



Below Table 4b HRA Model Baseline Sensitivities – 2,000 Units



3.2 The diagrams above demonstrate the strength of the model and the viability of the plans for an HRA. There are no adverse movements illustrated that would remove the HRA surplus. It is also likely that any movement in inflation rates would be at least partly offset. For example, if costs were to rise, it is likely that rents would also increase as they are linked to CPI.

3.3 The business model is a snapshot in time of the 30 year financial forecast for the HRA. As capital schemes come forward they will be assessed in terms of their individual Value for Money (VFM) and incorporated into the plan. The investment pipeline will be built up over the coming months. As the schemes move through assessment and internal governance processes, they will be incorporated into both the HRA business plan and the annual budget setting process.

4 The plan shows that the majority of capital expenditure on acquiring stock takes place over the first 10 years as the HRA builds up its portfolio and moves into a steady state. This is illustrated at Table 5. Table 6 shows the profile of debt over 30 years. The repayment process can be accelerated without reducing the viability of the model. This would be dependent on corporate debt management policy and what view was taken regarding the level of HRA reserve required.

4.1 Table 7 illustrates the net balances of the HRA over time and Table 8 shows this information in the form of annual surpluses. Both tables underline the longer term viability of a new HRA and emphasise the need to support its growth over the first 5 years and avoiding overloading too many corporate recharges at the beginning. This will ensure the long term health of the HRA and its ability to contribute significantly to the well-being of the Council as a whole.

Table 5 Profile of Capital Investment on Acquiring Stock

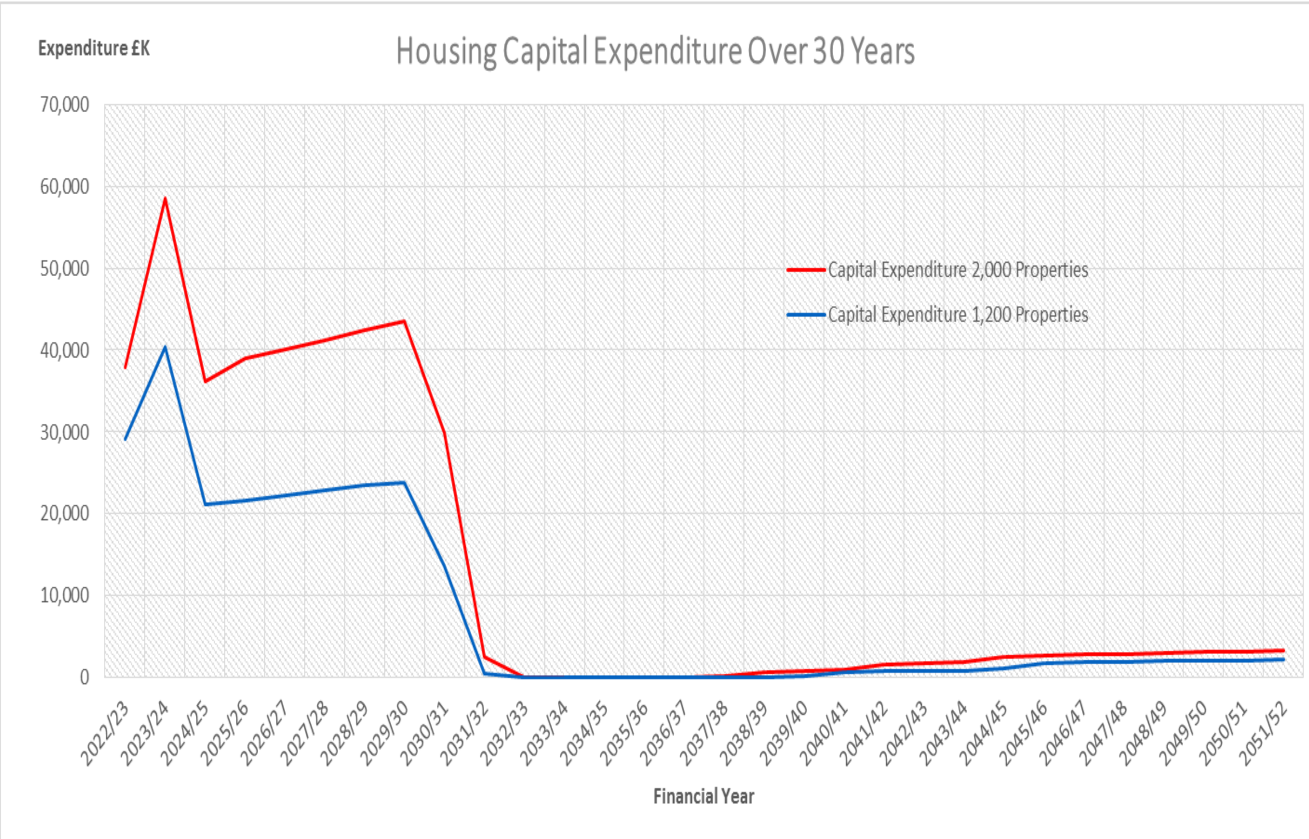


Table 6 HRA Cumulative Net Borrowing

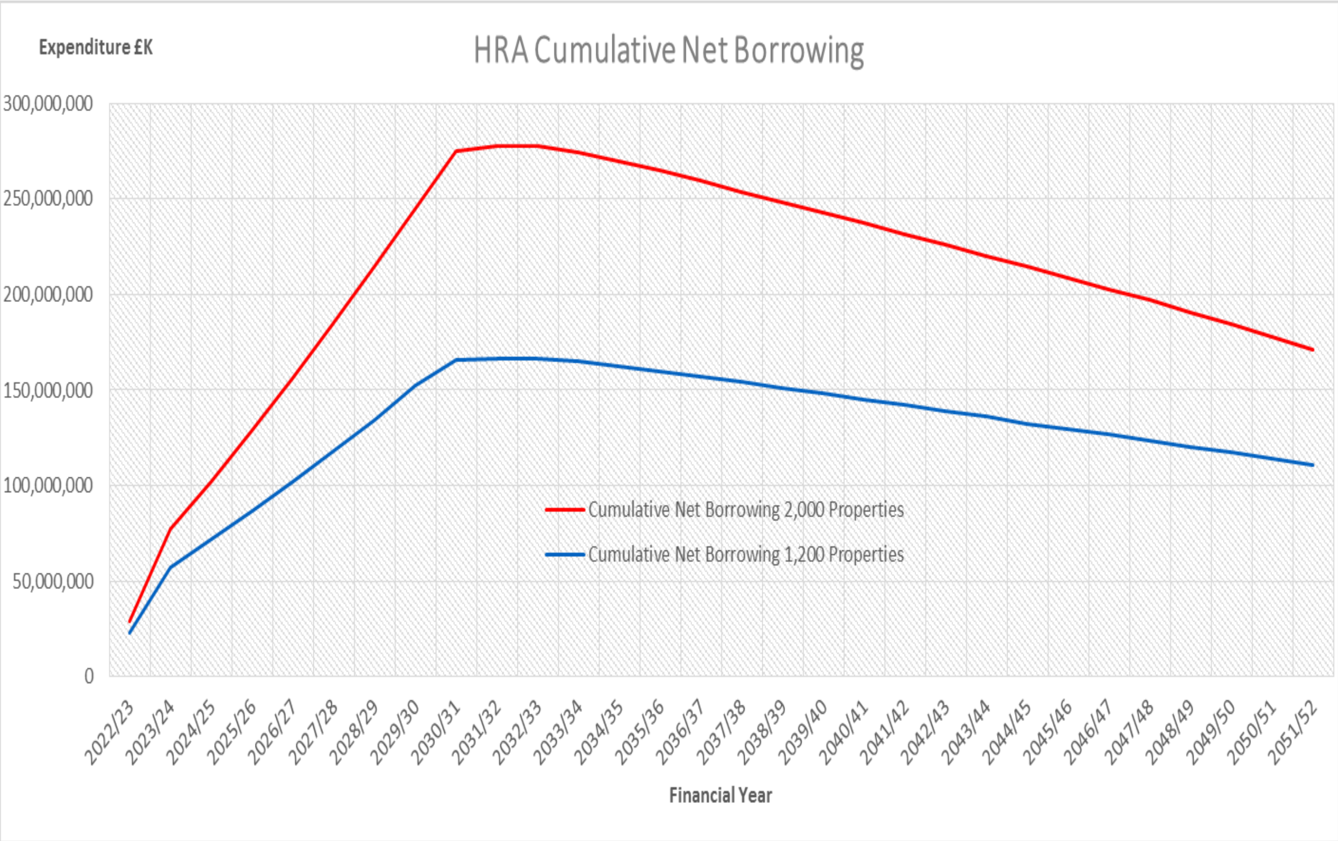


Table 7 HRA Cumulative Balances

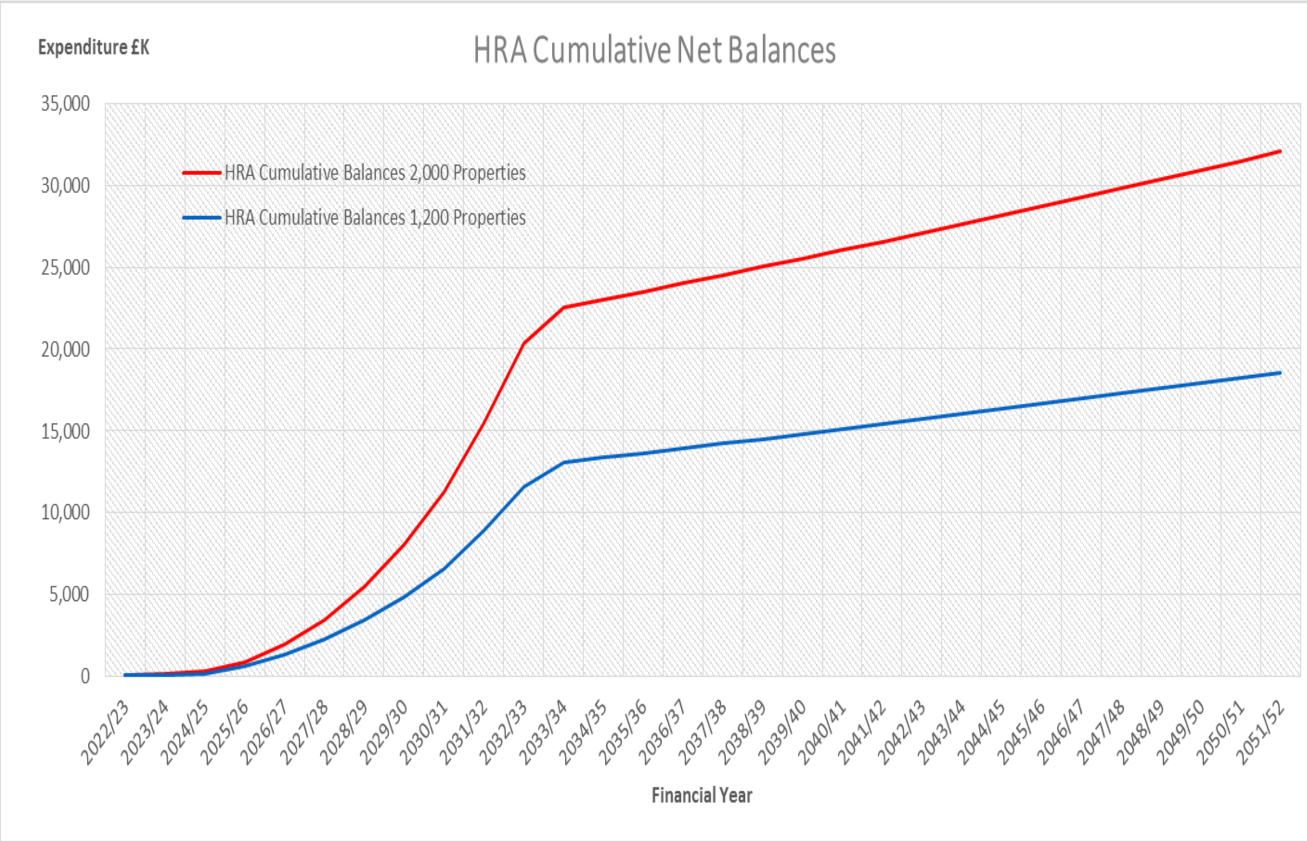
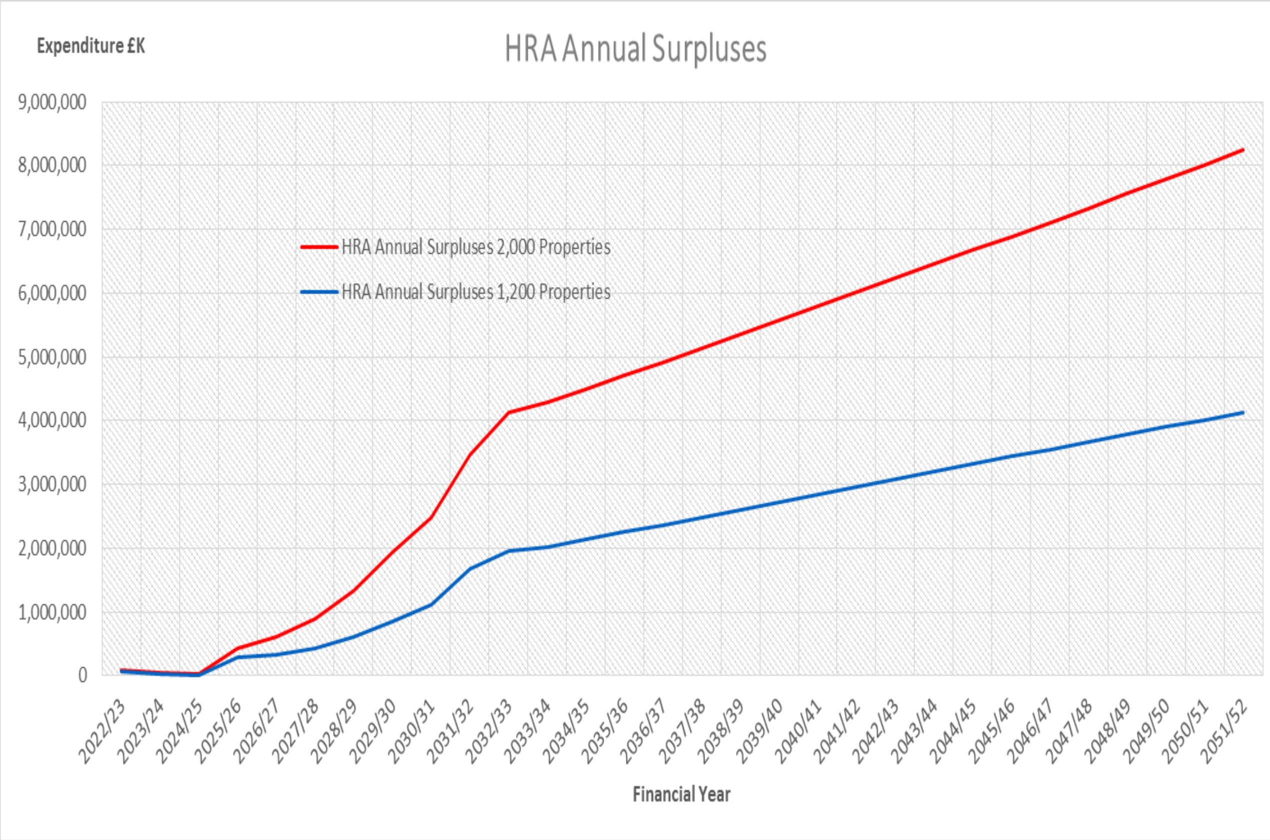


Table 8 HRA Annual Surpluses



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