London Borough of Enfield

Report Title	HRA Business Plan – Annual Review
Report to	Cabinet
Date of Meeting	21st February 2024
Cabinet Member	Cllr George Savva (Social Housing) and Cllr Tim Leaver (Finance & Procurement)
Executive Director / Director	Fay Hammond, Executive Director – Resources and Joanne Drew, Strategic Director of Housing and Regeneration
Report Author	Olga Bennet - Director of Finance (Capital) Claire Eldred - Head of Finance HRA
Ward(s) affected	All
Key Decision Number	KD5667
Classification	Part 1 Public
Reason for exemption	

Purpose of Report

1. Each year we review the Business Plan assumptions for the Housing Revenue Account (HRA) in the light of the external environment (for example interest and grant rates), the progress of our strategy for Council Housing and the forward plan for the period.

Recommendations

Recommend Cabinet to:

Approve:

I. The revised 10-year Development Programme of £615m, delivering c. 2,500 new properties and hurdle rates to assess viability for schemes as set out from paragraph 52

II. The next five years RTB programme expenditure of £102.1m as set out from paragraph 70

III. The updated HRA borrowing requirement of £357m over the next 10 years as set out in table 2

IV. A capital fund of £10m to maximise take up of Government/ GLA funding to purchase accommodation to progress decanting and use for temporary accommodation, this will be funded from the existing approved capital programme

V. The revised 10-year HRA Investment in Stock Programme of £285m for existing council homes and new financial indicators for decision making on investing in future major works to blocks (shown in table 4)

VI. The HRA formalising a voluntary annual repayment of loans to facilitate the repayment of borrowing over a fifty-year loan period as set out in graph 5

VII. The increase in the Reardon Court development budget from £30.1m to £34m (£3.9m increase), delivering 70 new affordable units, which will be funded from additional GLA grant or substituted schemes within the approved development programme

VIII. The increase in budget requirement for Dendridge development project from £6.9m to £9.9m (£3m increase) to deliver 22 new affordable units

IX. Subject to obtaining funding and viability, to progress the retention and refurbishment of Walbrook House, funded from the GLA AHP grant and future Social Housing Decarbonisation fund

X. Flip up to six 4 bed properties at Bury Street west from Private Sale to Affordable rented properties as set out in paragraph 64

XI. to delegate to the Strategic Director of Housing & Regeneration in consultation with the Executive Director of Finance to approve and accept to enter into a grant agreement for SHDF grant funding

Note:

XII. Rents, subject to approval by Council in February, will increase by 7.7% (September CPI 6.7% +1%) in 2024-25 for social and affordable rents, approval will come forward as part of the HRA rent setting report recommended to Council on 22nd February 2024

XIII. The updated debt position in respect of the appropriation of Meridian Water units to the HRA as set out in paragraph 47

XIV. Flexibility to use borrowing to fund the regulatory requirement works within the Investment Programme if cashflow is impacted by changes in receipts and revenue budget position

Background and Options

2. Each year, the HRA Business Plan is updated and a review of the Financial and investment framework is undertaken, along with the strategic approach.

3. The Good Growth Housing strategy sets out an ambition of being proud of and investing in our Council homes. This means adopting a balanced approach to investment in existing homes, the building of new council homes (both drawing on capital resources) and day to day services (revenue) for council tenants and leaseholders including meeting the required standards of the Regulator for Social Housing. At the centre of these carefully balanced priorities is the experience of tenants and leaseholders in council homes and residents across the borough who are in need of homes.

4. It is a general principle of our approach that we should maximise capital investment in homes and places to improve the quality of our homes for residents and to minimise day to day revenue costs. Investment in the development of new homes helps to, balance the age of the stock profile and its investment requirements, improve housing conditions and grow income whilst addressing critical housing need which drives general fund pressures in adult social care, children's services and homelessness.

5. The Regulatory environment has also changed. We will be subject to pro-active regulation from the Regulator for Social Housing from April 2024. We also have a new Regulatory framework by way of the Building Safety Regulator which will review the safety of all buildings over 18 metres – 52 in scope.

6. These issues coming together at the same time and with no additional funding will mean prioritisation will be necessary and full compliance in all areas will be dependent on available resources. We will also need to make further decisions about which stock to retain and invest in and which stock is no longer economic and should be disposed of.

7. In January 2020 Cabinet approved the 10-year new homes capital programme to delivery 3,804 new homes (3,500 affordable).

8. In February 2022, Cabinet agreed to continue with the ambitious investment programme to build new homes, regenerate places and improve the quality of existing Council homes. This report provides an update on the programme, future strategy and cost pressures which has extended the delivery of the programme.

9. In October 2022 Savills completed a strategic review of the business plan to ensure the HRA 30-year business plan continues to be remain viable and sustainable in the current and future financial market. This review included the following inputs:
   a. Reviewing the key assumptions for development, investment in existing stock and services against the efficiencies required
   b. Identifying pressures facing the Housing Service and provide strategic advice on where the Council should prioritise deployment of its investment

c. Review economic assumptions e.g. on inflation and rents informing our response to the social rent cap consultation.
d. Review the HRA financial framework including policy on cash flow management and performance buffers to reduce cash flow pressures
e. Identify longer term development capacity so that investment in new council homes can be aligned with other strategic developments in the borough.

10. This report therefore sets out how we will focus on ensuring the long-term sustainability of the Business plan and ensuring we meet the needs of residents and regulatory requirements.

Executive Summary

11. This report gives an update on the HRA 30-year business plan position at December 2023-24 and includes the following updates:
    a. Update on the economic position
    b. Financial framework update, including, financial metric and assumptions
    c. Updated borrowing profile, including interest rate update
    d. Revised 10-year development programme and strategic approach to secure ongoing delivery
    e. Updated RTB receipts spending proposal
    f. The 10-year investment in stock programme
    g. Revenue budget update, including savings proposals
    h. CPI and rents update
    i. To ensure that a balanced and viable 30-Year HRA Business Plan is approved by Cabinet which meets the strategic priorities of the service.

Strategy update

12. The 2012 debt settlement was calculated as the Net Present Value of a 30-year projection of the HRA – predicated on the fact that the Decent Homes Standard had been met. The settlement was based on rents less management and maintenance, less major repairs – taking into account property losses from the Right to Buy, Enfield's settlement was an apportionment of £28m of debt.

13. The settlement was based on the following key assumptions:
    a. Rents would increase by inflation plus 0.5% annually
    b. Management & maintenance costs were amended to cover what were analysed to be the costs at the time
    c. Major repairs/depreciation allowances were based on maintenance of the decent home's standard – i.e. that the decent homes standard had already been met
    d. Whilst there was an allowance for aids and adaptations, there were no further allowances for stock improvements
    e. Property losses from the Right to Buy were at a level which reflected activity before 2012, and not following the higher discounts from 2012

14. Since the time of the settlement, the following have been significant changes:
    a. Rents policy changed to CPI+1% with 4 years of 1% reduction and one year of cap

b. Capital cost pressures have grown – in particular in relation to fire/building safety and energy efficiency
c. Property reductions have been significant due to RTB and the increase in the discount level in 2012 whilst councils are able to repay debt from their additional receipts, there is a huge competing pressure on financing new build

15. The update this year has focused on ensuring the long-term sustainability of the Business plan and ensuring we raise resident satisfaction and meet regulatory requirements. This includes:
    a. Formalising the voluntary provision for repayment of debt and ensuring borrowing levels are within the recommended Loan to Value (LTV) hurdle
    b. Maintaining a viable business plan that can invest in stock, new homes, services and people to meet regulatory standards and deliver tenant satisfaction
    c. Maintaining resilience to risk events through a minimum reserves level of £8m - £15m given scale of risk events e.g. emergency decant of block
    d. On-going revenue efficiencies to remain within ICR of 1.25 (£1m per annum)
    e. Utilising the capacity of the business plan to deliver on the councils' objectives for housing growth and strengthen the long-term future of the business plan
    f. Divesting from non-core assets to reduce management and maintenance costs and to feed into priorities

16. The updated major works programme includes more investment into our existing stock to ensure we meet regulatory requirements and decent homes standards.

17. In order to support the investment required this report proposes to approve the ability to borrow to fund these works at a maximum of 50% of spend on non-decency elements, including repayment over useful economic life.

18. In addition to assist in making decisions on whether to invest in stock or take an alternative approach i.e. disposal, this report proposes to introduce a new financial indicator based on NPV and repayment period as a way to judge the economic value of investment recognising also that social value of council housing also plays a part.

19. The development and regeneration programme has seen the following changes:

    a. Re-profiled J&S budget requirement over the next 10 years – reducing capital commitment in this period (as shown in paragraph 55)
    b. Removed some direct delivery projects with a view to enabling delivery to RP's through the Affordable Housing Framework
    c. Balanced programme with acquisitions to support private sector schemes to progress underwriting and front funding affordable housing delivery programme along with supporting the decant programme and the provision of temporary accommodation.

d. Continuing with the AHP programme, supported by approved GLA grant, to ensure growth is built into the plan - this will ensure the plan remains sustainable to deliver future capital investment

20. The overall capital programme has been reduced, which has in turn reduced the borrowing requirement over the next 10 years. This has been intentional to ensure we manage the revenue position and remain within the approved LTV hurdle.

Relevance to Council Plans and Strategies

21. Develop affordable homes, improve existing housing stock to create a lifetime of opportunities in Enfield, providing Good Homes in well-connected Neighbourhoods, clean and green spaces, and Sustaining Strong and Healthy Communities.

Economic update

22. Like all social housing providers whether they be housing associations or Councils, the HRA continues to face significant challenges driven by adverse economic pressures and regulatory standards:
    a. Inflationary pressures – applying to all costs (both revenue and capital)
    b. Costlier and delayed development programme arising from higher construction cost inflation and building safety regulatory changes
    c. interest rate rises – impacting on the cost of borrowing
    d. changes to regulatory requirements in decent homes and fire safety – impacting on stock investment and new build developments

23. These factors have had a significant impact on the HRA business plan's capacity to deliver the current plans.

24. The report sets out the plans to manage the impact of market pressures whilst ensuring the HRA Business Plan continues to be remain viable and sustainable.

Financial Framework

25. The updated HRA Business Plan has been assessed within the approved financial framework. As part of this assessment, financial metrics to assess the financial viability and affordability levels of the HRA have been reviewed.

26. The Business Plan is assessed on the following metrics:

Metric/Ratio	Measure	Description
Interest Cover Ratio (ICR)	1.25 minimum	• This ratio determines whether the net cost of services (surplus) covers the borrowing interest expenses • Ratio of operating surplus divided by interest costs
Loan to Value (LTV)	50% maximum	• This ratio measures the level of debt compared to the asset value of our stock • Outstanding debt divided by fixed asset value

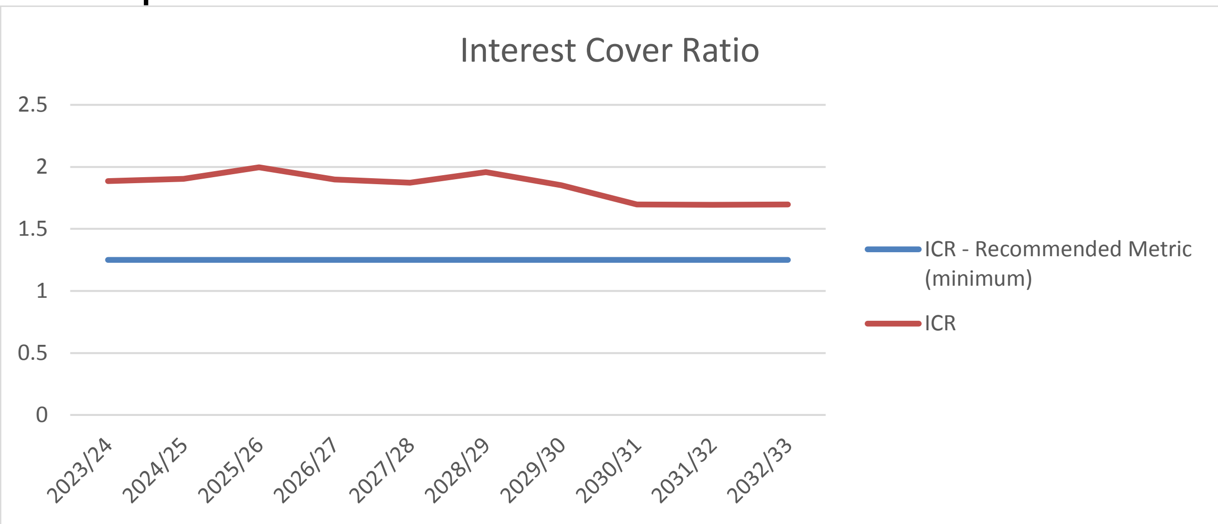
27. These metrics are based on successful operation of similar minimum/maximum metrics in the housing association sector. They represent a sound and effective way of managing borrowing and investment capacity.

28. However, in the current climate housing providers are projecting a reduction in the ICR ratio in the short term. Reductions in interest cover are particularly driven by widespread forecast increases in spending on maintenance and major repairs. This reflects stock quality improvements – particularly energy efficiency, decarbonisation and safety.

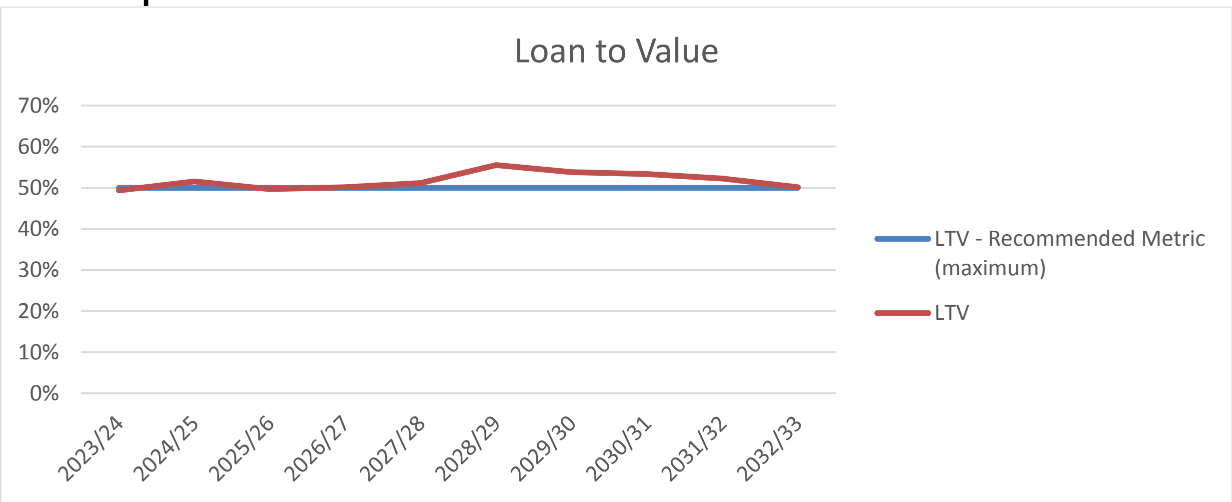
29. In addition, increases in the LTV ratio have been identified from lower sales values and debt requirements, however Enfield are ensuring that the ratio is within the approved level of 50% and debt repayment is formalised to manage the levels.

30. The financial metrics on the updated Business Plan are shown in the graphs below:

Graph 1



Graph 2



31. The review of the business plan has been measured against these metrics and shows in 2023-24 the current ICR is 1.89 and the LTV is 49%.

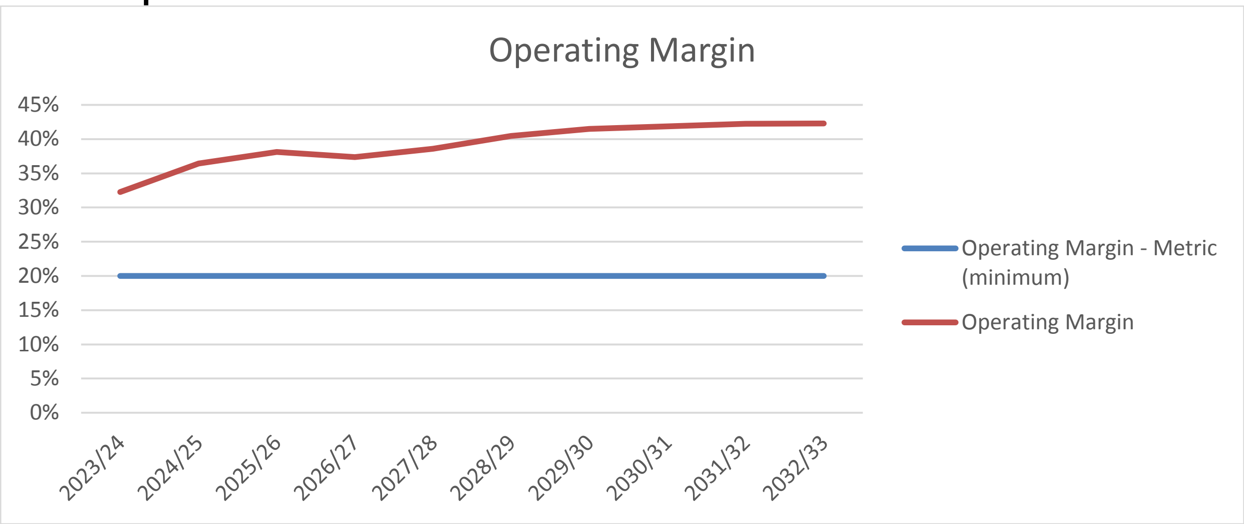
32. The ICR is above the recommended metric showing that the net cost of the housing service can service the debt required to deliver the development programme. It should be noted that remaining above the recommended level is dependent on the revenue budget achieving the proposed savings as set out in the revenue section of this report.

33. The LTV metric exceeds the expected levels from 2028-29 and this is mainly due to borrowing levels. The achievement of meeting this hurdle ensures that the HRA can sustain the level of debt, further review of the capital commitments from 2028-29 will need to be identified to ensure the LTV hurdle is met in future years.

34. As well as funding metrics, we use the operating margin as an efficiency metric to allow us to compare to industry averages within the Local Authority and Housing Association sectors.

35. The industry average is between 20-25%, and the following graph shows the Enfield's position against this average:

Graph 3



36. This shows that Enfield is above the recommended operating margin and grows positively, this is driven in part by the net addition in stock over the long-term serviced from the same operating cost base.

37. A minimum balance of 5% of the total revenue income (plus interest less depreciation) and 5% of the capital expenditure for the existing financial year, provides the Council with an 'assurance buffer' against unforeseen short-medium term variations to income and expenditure.

38. The current minimum balance is £6m per annum, however this report is proposing to increase this to £8m, with a target of £15m to allow an additional risk buffer due to the uncertainty of the economic climate and emergencies like decanting blocks, balances will not go below this level.

39. The updated HRA Business Plan remains affordable and sustainable. This position is underpinned by the following assumptions:

Table 1

Assumption	Current	Proposed
Rent Inflation (CPI)	10.1%	6.7% +1% = 7.7%
Efficiency savings per annum	£1m	£1m
Capital Expenditure – 10-year programme	£947m	£900m
Borrowing levels (10 years)	£669.8m	£654m
Borrowing Rate	4.5% 23-24, then 5.5%	4.9% for 23-24, then 5%
Income from disposals	£1m	£1m
Development Programme delivery period	15 years	17 years
Build cost per unit	New build £400k (AHP) Regeneration £450k New build £350k post AHP	New build £400k (AHP) Regeneration £450k New build £400k post AHP
Net Present Value (NPV) assessment criteria	Between -£60k and a Positive NPV	Positive NPV-£60k per unit – if 100% affordable Positive NPV – if cross subsidy
Repayment period	50 years (60 years for Joyce & Snells)	50 years (60 years for Joyce & Snells)
Grant Levels per unit	Max Affordable £150k & Shared Ownership £50k	Average Affordable £200k & Shared Ownership £50k
Private Sale & Shared Ownership sale value per unit	£400k	£400k
Shared Ownership rents	7% on unsold share, increased annually by RPI	6.7% on unsold share, increased annually by CPI
Contingency within each project	24%	24%
Minimum reserve levels	£6m	£8m

40. The proposed changes in assumptions are based on market knowledge and will enable the service to manage the risk of the future programme. The assumptions have been reviewed in the wider Housing sector to ensure they are reasonable in the current climate.

Debt and interest rates update

41. The capital programme is supported by borrowing from the PWLB. As at 31st March 2023, the average borrowing rate for a 30 year period was 4.79%. The PWLB interest rates are determined by HM Treasury based on gilt yields, the returns on government bonds. These rates are based on the gilt rate + 0.8% and since March 2023 gilt rates have further increased.

42. The increase in gilt rates has impacted the rate at which we borrow, and this has now risen to 4.9% for 23-24 and 5% long term. This increase has put additional pressure on the revenue budget and has increased interest payments over the 30-year business plan.

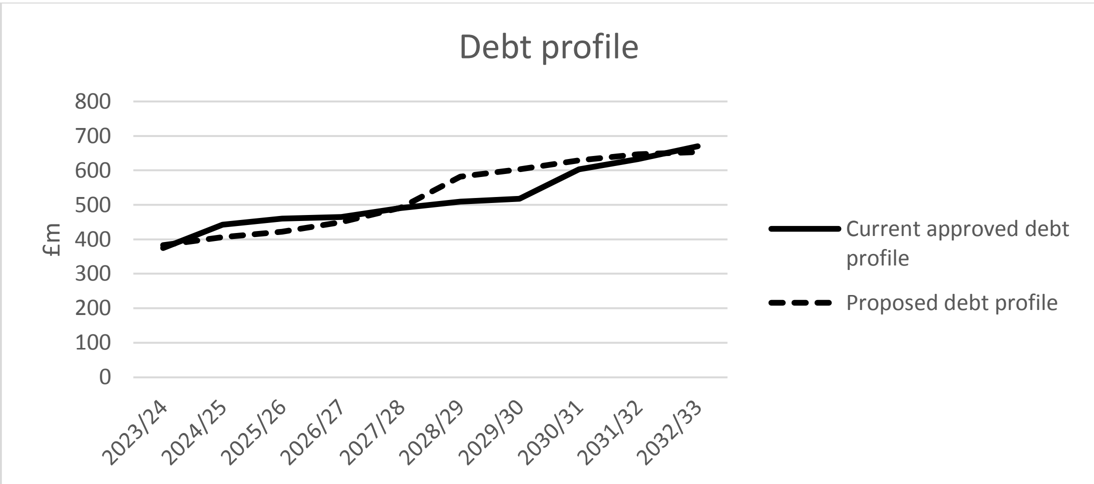
43. Central Government announced that there will be a reduction in borrowing rates for HRA's which will be 0.4% discount on borrowing from June 2023 for one year, this has reduced the revenue interest payments by £0.37m this year. The Autumn statement confirmed that the availability of this rate has now been extended by a further year, until the end of June 2025.

44. The below table and graph show the movement in the forecast HRA debt profile over the next 10 years (including loan repayments):

Table 2

	Approved borrowing	**Revised borrowing**	**Difference**
2023/24	78.3	86.3	8.0
2024/25	68.0	23.1	-44.9
2025/26	17.3	16.1	-1.2
2026/27	5.0	27.4	22.4
2027/28	26.0	41.7	15.7
2028/29	19.0	90.9	71.9
2029/30	8.0	20.6	12.6
2030/31	85.0	26.2	-58.8
2031/32	30.0	17.6	-12.4
2032/33	37.0	7.1	-29.9
Total	**373.6**	**357.0**	**-16.6**

Graph 4



45. HRA debt is currently forecast to increase from £297m as at March 2023 to £654m over the next ten years.

46. The borrowing profile has decreased overall, the main reasons are as follows:

a. Reduced capital requirement for J&S development project in the next 10 years, due to the rephasing of the project
b. Voluntary repayment of debt reduces the debt over this period by £17m
c. This has been partly offset by the increase in costs of units that will appropriated from the GF to the HRA at Meridian Water

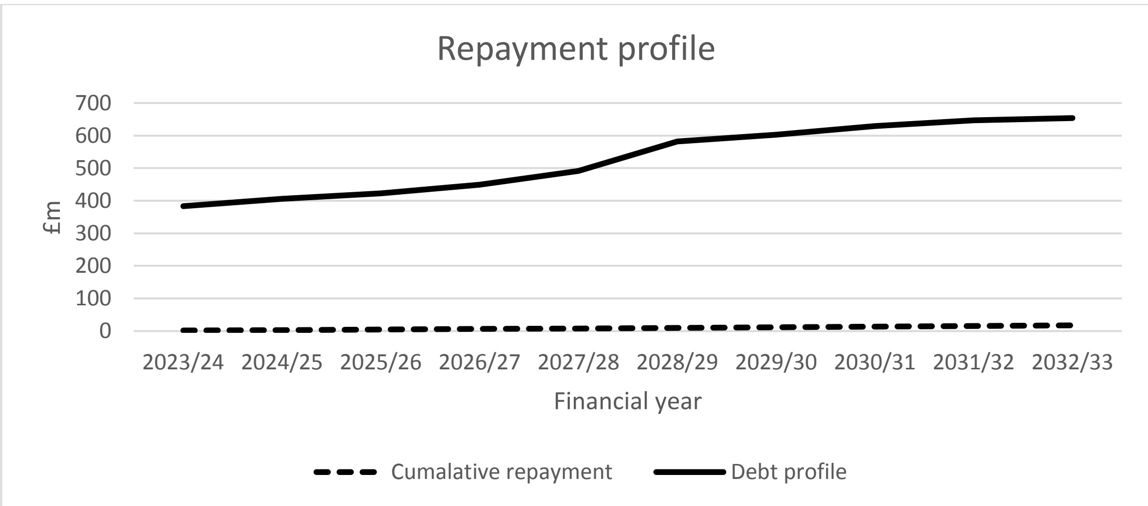
47. In July 2023, the Leader approved the appropriation of homes from the GF to the HRA for 20 out of the total 242 units planned to be appropriated to the HRA at Meridian Water (M1). As these units will be for affordable housing the Local Government Act 1972 gives the Council power to appropriate the properties from the General Fund to the HRA based on a certified value. Legal advice (Trowers) has been sought which has confirmed that the certified value can be based on the land acquisitions and development costs incurred. The previously approved Business Plan assumed a total appropriation value of £67m on a phased handover basis. The estimated cost and number of units has increased from £67m to £82m since Leaders approval in July 2023 (KD5534).

48. It should be noted that all borrowing requirements will remain within the Councils financial metrics and in line with the General Funds Prudential Indicators and Treasury Management Strategy. The loan principal will be paid back in full when it falls due and interest is charged annually over the life of the loan.

49. The HRA is introducing a more formal annual voluntary revenue provision for the repayment of borrowing. This means that rents will repay borrowing over the life of the asset, in line with statutory guidance requirements. The Council's Minimum Revenue Provision policy has been updated to clarify how it applies to the HRA. Provision for repayment of borrowing begins when an asset becomes operational which means that for construction of new housing, income from rents is available to start repaying debt associated with those assets.

50. The graph below shows the HRA MRP provision for debt repayments over the next 10 years:

Graph 5



51. It should be noted that whilst prudent this could affect capacity and flexibility within the HRA. The provision for repaying debt is £1.3m in 2024/25. This is 1.2% of the HRA Capital Financing Requirement (roughly equivalent to debt) as forecast for 31 March 2024.

Development and Estate Regeneration Programme

52. This will deliver approximately 3,500 new homes starts over the next 17 years, funded through a mix of GLA grant, Right to Buy (RTB) receipts, HRA borrowing and cross subsidy from sales.
53. This year the new homes programme continues to experience challenges arising from the current volatile market conditions and additional fire safety requirements on new developments. As a way to mitigate these risks, we are reviewing alternative delivery models and in the short term we are achieving new homes targets by acquiring additional homes.

54. We will be looking to maximise grant income and use buyback schemes as a strategy to progress with our GLA targets. This will reduce the risk of development, as the current market is volatile and financially challenging.

55. In light of these pressures the financial framework for assessing the viability of the development projects has been reviewed. The main changes to the programme and viability assessment are as follows:
    a. The programme has been reprofiled to reflect the latest financial position of projects in contract
    b. The Net Present Value (NPV) on future development projects (if cross subsidised) will need to achieve a positive position. This is to ensure the business plan isn't subsidising new stock against current stock requirements, until our stock fully meets regulatory requirements in decency and fire safety requirements the income from existing stock can't afford to subsidise future development projects on an ongoing basis.
    c. The IRR rate (post-financing) will be based on cost of capital plus 0.5%, this will ensure the development projects add value to the plan and the investment makes financial sense. It should be noted however that this could make viability increasingly challenging to deliver and is likely to result in an impact on quantum of delivery.
    d. Each scheme will be assessed on a scheme by scheme basis in consultation with the Capital Finance Review Panel, including following the Council's Governance approval procedures at key milestones.

Table 3

Hurdle Criteria	**Current Approved**	**Proposed**
Build cost per unit	£400k new build £450k estate regeneration	£400k new build £450k estate regeneration
Net Present Value (NPV)	-£60k per unit	-£60k per unit – if 100% affordable Positive NPV – if cross subsidy e.g. through sales is forthcoming
Internal rate of return (IRR)*	3.5% (post financing)	Cost of capital plus 0.5%
Repayment period	50 years	50 years (60 years for Joyce & Snells)

**IRR is that discount rate which will generate zero NPV; submarket rents used as the schemes have wider social benefits therefore it is acknowledged the IRR will not be met in all circumstances*

56. We have secured £166.5m as part of the GLA's Affordable Housing Programme, following a successful funding bid. This funding will contribute towards funding 1,119 new homes in the Borough.

57. We have substituted pipeline schemes and propose to use capital budget of £10m to purchase properties and convert to social homes to enable to decant of leaseholders at Walbrook/Shropshire and Cheshire Houses and relieve the temporary accommodation pressures. This budget will enable the purchase of an additional 20 homes, generating long term rental income and using grant funding of potentially £150k per unit through Government or GLA' funding

58. The J&S budget envelope within the business plan has been updated to reflect the latest budgetary position, with the development model being updated to reflect inflationary pressures and changes since the last approved position.

All phases (apart from phase 7)	**Current Budget £m**	**Update Budget £m**
Expenditure	936.1	999.0
Income	1,097.4	1,115.5
Net budget	**-161.3**	**-116.5**

59. Although the overall budget requirement has increased, there has been a reduction in capital budget in the next ten years, which has reduced the borrowing requirement for this project.

60. To date approval for the leaseholder buybacks in phases 0-3 was agreed up to a value of £55m, this report is recommending that the buybacks are extended for future phases but will remain within the existing approval budget.

61. Since this budget was approved the GLA have awarded a Land Fund allocation of c. £50m based on the number of leaseholders in the early years of the project. The updated J&S model is subject to further review and Cabinet approvals.

62. The Reardon Court extra care scheme will provide 70 new affordable homes within the HRA. Following site demolition and clearance works, development work is progressing well, with the projected building completion date at the end of April 2024. However, there have been supply chain fluctuations and unforeseen issues on site which have resulted in validated increased costs of £3.9m. These issues have seen the budget increase from £30.1m to £34m. These costs will be covered from schemes in the pipeline that have been substituted. A bid for further GLA for this scheme has been submitted and GLA have in principle agreed to provide additional funding, however this is unconfirmed at this time. The updated scheme hurdles are as follows showing with and without additional GLA grant:

Hurdles	**Scheme result (without additional grant)**	**Scheme result (with additional grant)**
IRR	4.87%	5.99%

NPV	-£77,763	-£21,020
Cost per unit	£494,552	£492,025
Payback period	50 years	50 ears

63. Dendridge Close has been included within the Affordable Housing 21-26 programme as a named site. This project was approved as part of KD5289, however following a review the budget requirement has increased. An allocation of £9.9m has been set for the delivery of 22 homes at Dendridge Close, with the increase in budget requirement covered from schemes in the pipeline that have been substituted. A full financial assessment will be completed on this scheme.

64. The Bury Street West project delivered 50 residential homes, 25 of which are for private sale and 25 for affordable rent. A marketing agent was procured in 2022 to progress the sale of the private units. To date, 6 homes have been sold and 4 are reserved. Over the last 12 months, housing market activity has slowed as high interest rates, high inflation, and a weaker economy have impacted buyers' affordability and confidence. At the end of 2023, transactions were down 22% on the pre-pandemic average and house prices had fallen 2% year-on-year. Despite some early signs of optimism as we enter 2024, the risk of further falls in house prices this year remain. The housing market will remain unaffordable to many households, and the impact of longer mortgage terms (less capital built up) will reduce buyer demand.

65. Due to the slow sales and the need to provide additional affordable housing to support the temporary accommodation pressures, this report proposes to flip up to six 4 bed properties that are currently assumed as private sale to affordable rented units. The financial impact is shown below:

	Approved report	**Revised budget**
Expenditure	**£000's**	**£000's**
Build cost	22.1	22.1
Land acquisition from GF	3.5	3.5
Total cost	**25.6**	**25.6**
Income		
GLA Grant	2.5	3.8
Sales Receipts	16.8	10.9
Total income	**19.3**	**14.7**
Net Cost	**6.2**	**10.8**

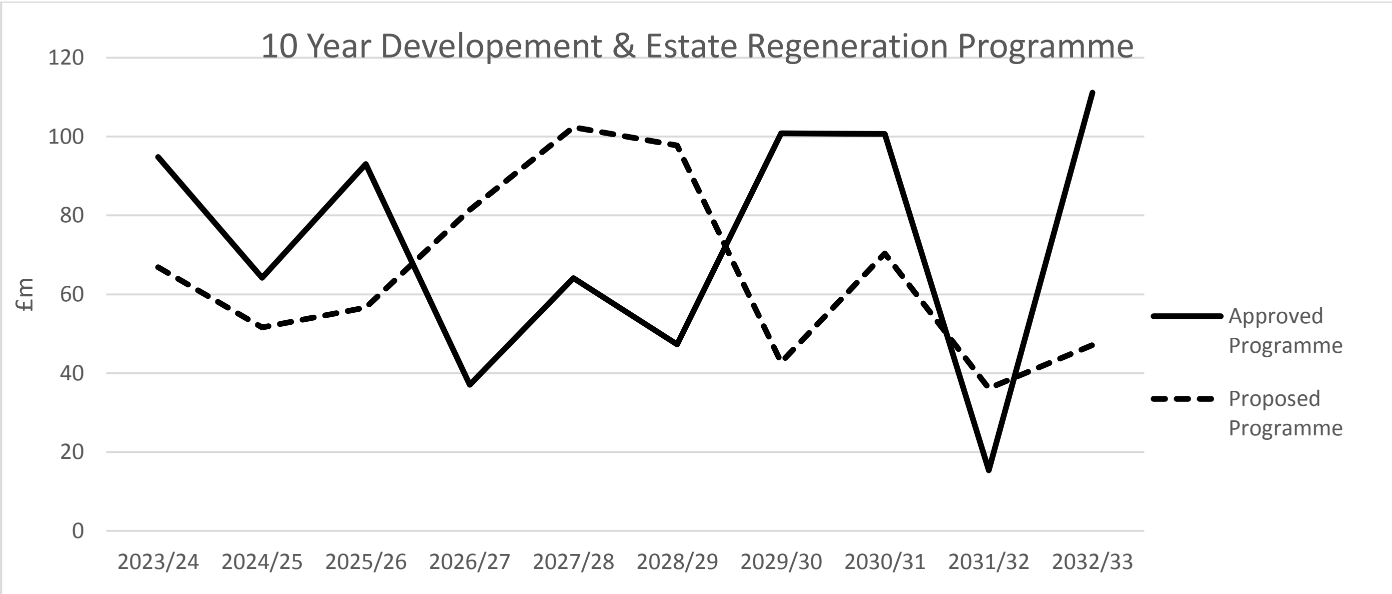
	Approved	**Revised**
Price per property	£511k	£511k
NPV	-£0.78m	£1.78m
NPV per Property	-£16k	£39k
IRR	2.41%	7.91%
Loan repaid in year (notional)	37	28

66. The tables show that although additional grant can be claimed by flipping the units to affordable rent, the loss of sales receipt will have an impact on the HRA business plan, totalling £4.6m. This has been modelled into the HRA plan and is affordable.

67. The NPV hurdle rate for the scheme improves due to the long-term rental income (£71k per annum increase each year by CPI) the HRA would receive.

68. The below graph compares the current approved programme against the proposed reprofiled 10-year budget:

Graph 6



69. The graph shows how the budget has been reduced in the first three years to reflect the reprofiling of the programme. The programme spikes in 27-28 and 28-29 to reflect the forecast delivery of the schemes within the AHP programme. These schemes will be part funded from the GLA Affordable Housing Grant and must be delivered within specific timescales to secure the grant.

Right to Buy (RTB) Receipts

70. The Government published new legislation on the use of RTB receipts with these changes being effective from 1st April 2021 and gave Councils slightly more flexibilities on how the RTB receipts can be applied.

71. In order to maximise the use of RTB receipts it is proposed these receipts will contribute towards the HRA's acquisition programme and support future development schemes.

72. The proposed five-year programme is shown in the table below, this could be subject to change as there may be delays or unavoidable changes within the programme.

Table 4

RTB receipts	**2023.24**	**2024.25**	**2025.26**	**2026.27**	**2027.28**
Actual spend required 100%	19.28	19.13	11.90	21.50	30.27
RTB receipts applied to capital spend 40%	7.71	7.65	4.76	8.60	12.11

100% capital expenditure (total spend)					
New Avenue	0.01	0.02	0.00	0.00	0.00
Alma acquisition 2b - 22 units	0.00	4.56	4.56	0.00	0.00
Alma acquisition 2a and 4 - 137 units	21.35	14.80	0.00	0.00	0.00
Acquisitions	0.00	0.00	3.60	8.95	30.27
Walbrook/Shropshire/Cheshire	2.73	15.05	0.00	0.00	0.00
Unallocated (+)/overallocated (-) receipts	-4.80	-15.29	3.74	12.55	0.00
Total spend	**19.28**	**19.13**	**11.90**	**21.50**	**30.27**
40% RTB receipts applied to capital exp.					
New Avenue	0.00	0.01	0.00	0.00	0.00
Alma acquisition 2b - 22 units	0.00	1.82	1.82	0.00	0.00
Alma acquisition 2a and 4 - 137 units	8.54	5.92	0.00	0.00	0.00
Acquisitions	0.00	0.00	1.44	3.58	12.11
Walbrook/Shropshire/Cheshire	1.09	6.02	0.00	0.00	0.00
Unallocated (+)/overallocated (-) receipts	-1.92	-6.12	1.50	5.02	0.00
Total Spend	**7.71**	**7.65**	**4.76**	**8.60**	**12.11**

73. The Council will continue to assess schemes on the basis of grant as % of total scheme costs against the use of unspent Right to Buy receipts to ensure that available resources are directed to the key priorities and grant is maximised on newbuild developments.

Disposals

74. The current Business Plan assumes an annual target of £1m for disposals. This year we have continued to achieve targets and are expecting to exceed the target this year. We have £1.04m sales to date with a further £1m sales proposed this year, including predominantly small parcels of land that are not usable for the development programme. Going forward the Business Plan will be supported by sales of void properties that are high cost to maintain (-NPV) or high value. This will provide investment to reduce the call on borrowing to maintain existing stock or to provide cross subsidy for development schemes.

75. For example, we have some 250 homes that have bathroom pods which are failing the Decent Homes Standard. The solution to address the decency is to build an integral bathroom with extension which can cost in the region of £50k. Where the property has potential to increase bedroom capacity this investment may generate additional income and meet priority need. However, if not then the property will better be considered for disposal at void stage.

Investment programme

76. The investment programme continues to experience challenges this year arising from the current market conditions. The impact of increased inflation on the planned maintenance sector has been substantial with both labour and material shortages pushing up costs by more than general inflation and increasing interest rates. The particular pressures that led to the high

inflation/interest levels over the few years have subsided slightly, but the sector does not expect prices to reduce in the near future.

77. In addition, enhanced regulatory requirements in building safety and decent homes has led to significant shortfalls in the investment programme capital budget. We have reviewed the budget in light of these additional requirements, due to low reserves levels, it will potentially be necessary to borrow to fund the regulatory requirements in the short term, however at this time there have been no borrowing requirements identified.

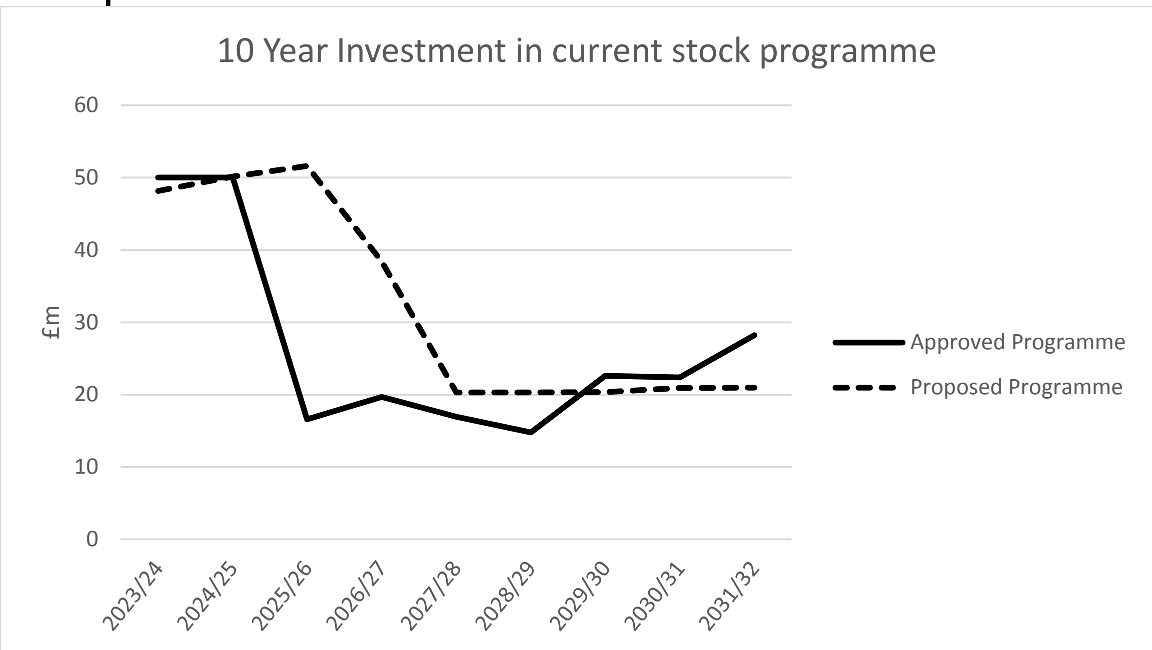
78. Continued investment in Council Homes is critical as will be making asset management decisions. The council has a plan to achieve the Decent Homes Standard by 2026 and is making considerable investment to achieve this. We must also invest in safety and in driving out damp and mould where building fabric issues are the cause.

79. This report is noting that flexibility to use borrowing to fund the investment programme is required if necessary. With additional regulatory requirements, low reserves and a cashflow reliant on capital receipts, funding the programme carries risk. Moving to this approach would minimise this risk and would only be necessary if the cash flow was impacted. This strategy will help to unlock development growth, meet decency standards, reduce revenue spend and in turn build HRA reserve levels.

80. The updated programme has allocated resources based on a hierarchy of prioritisation with building safety and compliance being the highest ranked priorities, followed by decency as priority 2 and energy efficiency/sustainability priority 3.

81. The below graph compares the current approved programme against the proposed reprofiled 10-year budget:

Graph 7



82. The programme has been increased over the next 10 years to reflect the additional regulatory and fire safety requirements on our stock. This programme will move the stock to the decency by 2026 and fire safety regulatory requirements depending on the outcomes of recommendations arising from the safety reviews of buildings currently underway.

83. The Government have released a further funding stream through the Social Decarbonisation Fund. This funding (wave 2) will support upgrades to a significant amount of housing stock currently below EPC standards, to deliver warm, energy-efficient homes, reducing carbon emissions and fuel bills, tackling fuel poverty, and supporting green jobs. A bid for funding of £3.46m has been submitted and if successful will support enhanced energy efficiency works in 2024/25.

84. In order to support investment in our current stock and make decisions on whether we should invest in stock or take an alternative approach i.e. disposal, we are proposing to introduce a new financial indicator, the proposed indicator is as follows:

Hurdle Criteria	**Proposed**
Net Present Value (NPV)	Positive NPV
Repayment period	over the useful economic life of the capital expenditure

85. The future assessments will be based on works costs, on-going major works and the average rent over a 30-year period.

Walbrook House

86. The decanting of Walbrook House is nearing completion. Since the decision was made to decommission this block due to the investment requirements and as a result of having a vacant block the option of refurbishment, subsidised with Government and GLA grants has come forward. We are bidding for Social Housing Decarbonisation Funding and GLA funding to bring the leaseholder homes into social housing. If sufficient funding is available and a refurbishment scheme is viable this is a reasonable option to consider further.

87. It should be noted that following a period of soft market testing a regeneration scheme either directly delivered or in partnership is not possible without subsidy due to site and planning constraints.

88. In addition, we are exploring a potential partnership with an investor for the disposal of the site in partnership. Further work will be undertaken on all options and in the event that direct refurbishment is considered optimum this route will be progressed with borrowing supported by the cash flows from the scheme.

Revenue Budget

89. We are continually reviewing the management and maintenance service budgets and monitoring the inflationary pressures to the revenue budget. The cost per unit of these services is being measured against Housemark benchmarks/industry standards to ensure we offer value for money and assist in measuring performance and driving down costs.
90. The annual efficiency targets against management and maintenance budgets remain as a target of £1m per annum for the next three years. The target was achieved in 2022-23, with work ongoing to reach the target this year.

91. The areas of focus include:
    a. Reviewing efficiencies as a result of the Civica mobilisation and the reduction of double running of systems.
    b. Repairs - driving down the reactive repair's costs
    c. Closely monitoring the compliance budgets, now we have secured very high levels of statutory compliance.
    d. reviewing staff structures in the management and maintenance areas
    e. reviewing service charges to tenants and leaseholders to fully recover the costs of services
    f. reviewing core and non-core landlord services, with a view to focus on core services provided to our residents

92. At a time of pro-active regulation, the sector faces challenges in managing within a reduced cost envelope whilst responding to the Regulatory Consumer Standards and the needs of residents through the cost of living crisis. This requires a focus on landlord priorities. Therefore, services that do not relate to an improvement to our core landlord service and resident wellbeing will be discontinued.

CPI (Consumer Price Index) Update

93. In February 2019 the Government published a Rent Policy Statement and a Direction on the Rent Standard 2019. The Rent Standard 2020 published by the Regulator of Social Housing set out that Councils could set a maximum actual rent increases of CPI + 1% per annum until 2024/25 based on the preceding September published CPI.

94. Rent increases from financial year 2025/26 onwards are assumed in line with the Government's long-term CPI target of 2%. This is considered reasonable and in line with external professional advice.
95. The Governments imposed rent cap in 2023-24, reduced the revenue position by £116m over the next 30 years.

96. There has been no consultation on capping rents for 2024-25, so under current regulations the Consumer Price Index (CPI) for September 2023 +1% determines the maximum increase in the rent for social/affordable rented properties. The September CPI was published in October at a rate of 6.7%. In following the rent standard, rents will increase by 7.7% from April 2024.

97. The table below shows the current average rent per week with the proposed rent increase for 2024/25:

Average Weekly Rent	2023-24	2024-25 @ 7.7%
Social	114.83	123.67
Affordable	196.00	211.09

98. Full approval for rents and service charges will be included in the Rent Setting report going to February Cabinet for approval.

Financial Risks

99. The Base case is predicated on a suite of assumptions which can, if changed in isolation or in concert, have a significant impact on the position of the Council's HRA.

100. Adverse changes in these assumptions therefore present a risk to the HRA, the key risks are as follows:
   a. Long term future rent uncertainty – any rent reductions or freezes will have a significant impact on the Business Plan.
   b. If assumed capital receipts are not achieved in any given year, this will impact the cashflow of the business plan and could impact minimum reserve levels
   c. The build cost is based on market intelligence and may in some circumstances be higher as the market is extremely volatile due to constrained supply chains having an impact on the delivery of the programme. Market conditions will be monitored closely as any impact on build costs would impact the number of units we are able to deliver. A 24% contingency will be built into all future project budgets to mitigate this risk.
   d. There are 1,043 private sales units built into the plan, depending on market conditions the sale of these units could add financial pressure to the business plan and impact on cashflow if the sales were delayed.
   e. Changes in grant conditions could impact the future development programme i.e. reduction in rent levels and grant receivable. The new AHP has been agreed but this is predicated on grant conditions being met in full. Beyond 2026 there is no confirmed grant allocations
   f. Interest rate uncertainty – the risk of additional interest rates increases above that currently assumed will affect borrowing capacity and will impact on the viability of the business plan.
   g. The business plan is based on achieving reductions in Management and Maintenance costs (c. £1m per annum). If these savings aren't achieved it could impact on the affordability of the proposals included.

Financial Implications

101. The financial implications are implicit within the body of the report.

Legal Implications

102. Section 74 of the Local Government and Housing Act 1989 sets out that Housing property must be accounted for in the Housing Revenue Account (HRA) by reference to the powers under which it is held. Furthermore, there is a statutory requirement whereby the Council is obliged to keep its HRA separate from other housing activities and not to allow cross subsidy to or from the Council's General Fund resources.

103. Under Regulation 12 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) local authorities are required to use Right to Buy receipts to pay the "poolable amount" to the Secretary of State on a quarterly basis.

104. On 29th October 2018, the HRA borrowing cap was abolished and as a result local authority with an HRA are able to borrow against their expected rental income provided this is in line with the current CIPFA Prudential Code.

105. It should be noted that if the Council wishes to dispose of land or property in the HRA or provide financial assistance the consent of the Secretary of State maybe required unless such disposals fall within the General Disposal Consents in Section 32 Housing Act 1985.

106. In respect of the Council's public sector equalities duty, current equality impact assessments should be kept under review in case of policy changes

Equalities Implications

107. A screening has been completed an EqIA isn't required for this report.

Public Health Implications

108. Good quality housing plays an essential role in improving public health and wellbeing

Property Implications

109. All Property Disposals will be subject to the council's Property Procedure Rules ensuring best value for the HRA Business Plan

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Report Author: Olga Bennet – Director of Finance (Capital)
Claire Eldred - Head of Finance HRA

Appendices

Appendix A - Proposed Revenue budget for 30 years
Appendix B - Proposed Capital budget for 30 years

Proposed Revenue budget for 30 years - Appendix A

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-54
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Dwelling Rents	-68.7	-75.4	-77.9	-82.5	-88.6	-93.1	-96.2	-99.3	-101.7	-103.8	-2,527.2
Service Charges Tenants	-3.9	-4.1	-4.2	-4.3	-4.6	-4.7	-4.8	-4.9	-5.0	-5.1	-123.2
Service Charges Leaseholders	-5.7	-6.0	-6.2	-6.3	-6.4	-6.5	-6.7	-6.8	-6.9	-7.1	-176.0
Voids	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.1	25.9
Non Dwelling Rents	-3.3	-3.7	-3.8	-3.8	-3.9	-4.0	-4.1	-4.2	-4.2	-4.3	-107.3
RTB Administration Income	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.9
Total Income	**-81.0**	**-88.5**	**-91.3**	**-96.1**	**-102.6**	**-107.5**	**-110.8**	**-114.2**	**-116.9**	**-119.3**	**-2,908.7**
Responsive Repairs	17.5	18.7	19.6	20.3	21.0	21.7	22.2	22.7	23.3	23.8	590.5
Supervision And Management	15.5	16.5	17.4	18.0	18.6	19.1	19.6	20.0	20.5	20.7	513.8
Special Services	10.5	11.0	11.3	11.5	11.7	11.9	12.2	12.4	12.7	12.9	320.1
Rents Rates Taxes & Other Charges	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	7.9
Bad Debt	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.1	24.1
Depreciation of Fixed Assets Total	5.5	5.9	6.1	6.4	6.8	7.1	7.3	7.5	7.7	7.8	189.1
Debt Management Costs	1.4	1.4	1.6	1.6	1.7	1.7	1.8	1.9	1.9	2.0	58.2
Total Expenditure	**51.5**	**54.7**	**57.2**	**59.0**	**61.1**	**62.9**	**64.4**	**66.0**	**67.5**	**68.6**	**1,703.6**
Net (Cost) Of Services	**-29.5**	**-33.7**	**-34.1**	**-37.1**	**-41.5**	**-44.6**	**-46.4**	**-48.3**	**-49.4**	**-50.6**	**-1,205.1**
Loan Interest	15.5	16.9	18.0	19.8	21.2	24.1	27.3	28.5	29.1	29.4	692.4
Interest Income	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-15.9
Notional Cash Interest	-0.5	-1.0	-0.9	-0.9	-1.8	-2.1	-2.3	-2.2	-2.2	-2.3	-613.9
Capital Account Adjustments	**14.7**	**15.6**	**16.9**	**18.6**	**19.1**	**21.6**	**24.7**	**25.9**	**26.5**	**26.7**	**62.6**
Net Operating Income / (Expenditure)	**-14.8**	**-18.1**	**-17.2**	**-18.5**	**-22.5**	**-22.9**	**-21.7**	**-22.4**	**-23.0**	**-24.0**	**-1,142.5**

Proposed Capital budget for 30 years - Appendix B

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-54
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
CAPITAL PROGRAMME											
Investment in current stock programme	50.1	51.6	38.4	20.3	20.3	20.3	20.9	20.9	21.0	21.0	493.7
Development & Regeneration programme	51.6	56.6	81.4	102.4	97.8	42.7	70.4	36.2	47.1	28.9	656.3
Total Capital Programme	**101.7**	**108.2**	**119.8**	**122.6**	**118.1**	**63.1**	**91.3**	**57.1**	**68.1**	**49.9**	**1,150.0**
CAPITAL FINANCING											
HRA Use Of Major Repairs Reserve	-5.5	-9.3	-23.6	-6.4	-6.8	-7.1	-7.3	-7.5	-7.7	-7.8	61.8
Borrowing	-16.0	-17.5	-29.0	-43.3	-70.2	0.0	-28.0	-19.5	-9.0	0.0	-119.0
Grant Funding	-36.4	-43.9	-45.4	-18.5	0.0	-16.1	-16.1	0.0	0.0	-14.1	-35.9
Useable One-to-One RTB Receipts	-13.8	-3.3	-3.6	-12.1	-9.4	-1.9	-2.0	-2.2	-2.3	-2.4	-87.8
Capital receipts	-19.6	-12.0	-18.2	-24.8	-12.7	-19.1	-15.0	-5.5	-26.1	-17.1	-910.7
Earmarked reserves	-10.4	-22.2	0.0	-17.5	-19.1	-18.8	-22.9	-22.5	-23.1	-8.4	-58.4
Total Capital Financing Detail	**-101.7**	**-108.2**	**-119.8**	**-122.6**	**-118.1**	**-63.1**	**-91.3**	**-57.1**	**-68.1**	**-49.9**	**-1,150.0**