London Borough of Enfield

Meeting Date: Cabinet 8th December 2021

Subject: **HRA Business Plan update report**

Cabinet Member: **Councillor Maguire and Councillor Needs**

Key Decision: **KD5342**

Purpose of Report

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

2. The current strategy is to have a balanced approach to investment (capital) in existing homes, the building of new council homes and day to day services (revenue) for council tenants and leaseholders including meeting the required standards of the Regulator for Social Housing. It is a general principle of our approach that we should maximise capital investment in homes and places to minimise day to day revenue costs. An efficient, but adequately resourced day to day service should allow investment in the development of new homes which helps to grow income, balance the age of the stock profile and its investment requirements whilst addressing critical housing need which drives general fund pressures in homelessness and beyond.

3. Cabinet will be aware that there are significant pressures on the Council Housing area in relation to building safety and decarbonisation and that it has called on Government to meet these costs which – whilst important to the Council's agenda – cannot readily be funded from the Housing Revenue account without additional financial support. We have successfully bid for a number of decarbonisation grants to address circa 250 homes and this business plan review builds in the costs of the new building safety management framework.

4. This strategy delivers on our Good Growth Housing strategy ambitions of being proud of and investing in our Council homes.

Proposals

5. Cabinet is recommended to:

6. Note the updated HRA Business Plan and financial assumptions on which we will ensure an affordable and viable 30-year plan.

7. Recommend to Council the revised 10-year HRA Capital Programme budget, including reduction of £94.8m in the overall budget requirement.

8. Note the reduced HRA borrowing requirement from £656.2m to £622.6m over the next 10 years.

9. Recommend to Council to approve the updated hurdle rates and build costs on development schemes as a result of adverse market conditions which will enable us to continue to build new homes during this period.

10. Recommend to Council to approve acceptance of successful GLA grant bid of £166.5m as part of the AHP 21-26 programme and entering into of grant agreement for starts from 2023-2028. This secures funding for the first phases of the Joyce and Snells regeneration scheme.

11. Note September CPI of 3.1%, which increases the social and affordable rents levels in April 2022 by 4.1%, approval will come forward as part of the HRA rent setting report recommended to Council on 23rd February 2022.

12. Note the reduction in borrowing interest rates for 2021-22 and 2022-23, approval will be recommended to Council as part of the Treasury Strategy update report on 23rd February 2022.

13. Note the outline criteria to be used when assessing lease propositions from external investors as a means of increasing supply without entering into any binding commitment until all aspects, including Treasury Management, have been fully considered.

14. Recommend to Council to approve entering into of a Deed of Variation to the Development Agreement for the Ladderswood project for costs accrued in earlier phases and adjustments to overage income projections.

15. Recommend to Council to approve Deed of Variation to the New Avenue Development Agreement to increase the number of homes from 408 to 503, subject to planning and all relevant consents.

16. Note that there is no additional funding available to meet the Fire Safety Act 2021, made law in April and the Building Safety agenda and that additional staffing resources to meet these new functions is included in the business plan on a phased basis from April 2022.

17. Note the additional investment made in improving the environmental conditions of estates following lifestyle changes as a result of the pandemic.

Reason for Proposals

18. To ensure that a balanced and viable 30-Year HRA Business Plan is approved by Cabinet which meets the strategic priorities of the service.

Relevance to the Council's Corporate Plan

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

Background

20. In January 2020, the HRA Business Plan was updated and a revised Financial and investment framework was approved. This report included

the introduction of the financial metrics which are to assist in ensuring viability and sustainability of the HRA 30-year business plan.

21. The report approved the delivery of 3,804 new homes (3,500 affordable) in the development programme over the next 10 years. This recognised the need for, and Council's priority for the addition of affordable council housing to meet the existing needs of residents.

22. In February 2021, Cabinet approved the Better Council Homes (KD5219) report, which included a review of the HRA 30-year business plan. This report included the following changes:

    a. Revised development programme including extension of years to achieve completions from 10 years to 13 years and that the 3,500 new homes programme could be met in this period
    b. updated financial hurdle rates
    c. Changes to the GLA funding and new Affordable Housing Programme (AHP)
    d. Updated borrowing profile
    e. Re-profiled 10-year investment in stock programme
    f. Update on efficiency savings
    g. CPI reduction from estimated 2% to 0.5%
    h. Updated financial metrics

23. Cabinet agreed an ambitious investment programme (February 2021) to improve the quality of existing Council homes. This report provides an update on the programme for 2021/22.

24. We have called on Government to meet the costs of new burdens arising from the Building Safety Bill and from the zero-carbon agenda which amounts to circa £370m over the next 30 years (subject to review as part of the Asset Management Strategy). Whilst there is decarbonisation funding being made available via bid calls, coming through for decarbonisation there is no additional funding for Building Safety although some of these costs are capable of being levied by way of service charges.

25. In February 2021, the HRA rent setting was approved which included the 30-year revenue and capital programme budget approvals.

Main Considerations for the Council

26. The HRA Business Plan is subject to an annual review to ensure the assumptions are deliverable in the local operating context.

27. This report gives an update on the HRA 30-year business plan position at Quarter 2 2021-22 and includes the following main changes:

    a. Revised 10-year development programme to secure ongoing delivery
    b. RTB receipts legislation
    c. Updated borrowing profile
    d. Lease proposals
    e. Re-profiled 10-year investment in stock programme
    f. Revenue budget update
    g. CPI update

h. Financial framework update, including, financial metric and assumptions

28. **Development Programme**

29. This will deliver approximately 3,500 new homes starts over the next 13 years, funded through a mix of GLA grant, Right to Buy (RTB) receipts, HRA borrowing and cross subsidy from sales.

30. This year (2021-22) the new homes programme has experienced challenges arising from the current volatile market conditions.

31. For context, the pandemic, BREXIT, climate change and Suez Canal back log have created market volatility due to material shortages and cost increases, thus having an impact on the supply chain. Construction firms have a severe lack of materials and continued staff shortages among bricklayers, drivers, ground workers, joiners and plumbers. It has meant that many are struggling to find the subcontractors needed for building projects. While the construction industry has been growing fast with the pandemic easing, data from last month reported the weakest speed of recovery for eight months. New official data also shows that UK brick sales, a sign of the state of housebuilding, were 9.3% lower in August than July and 3.3% lower than the 2019 average.

32. According to the Department for Business, Energy and Industrial Strategy's (BEIS), material prices generally were 10.2% higher in May 2021 than in May 2020. Moreover, key construction materials such as fabricated steel and plyboard have increased by 38.1% and 29.8% respectively.

33. In order to manage the pressures of increased build cost within the current programme a number of reviews are progressing including, value engineering to create efficiencies, seeking higher grant levels and S106 funding and reviewing procurement strategies.

34. Upton Road and Exeter Road are infill developments across Council owned land. A hybrid application for Exeter Road was granted approval in August and Upton and Raynham planning application will be submitted in November. As a combined project, these sites will deliver over 200 homes by 2025, with starts on site due to commence in early 2022. They will also improve the living conditions for existing residents who will, subject to housing need, have first priority for new homes via local lettings plans.

35. Since the HRA Business Plan capacity was reviewed by Savills in 2019, the build costs have significantly increased as a result of the changing construction market and adoption of the London Plan which includes requirements for net zero, play and sustainable drainage hierarchy. Additionally, both projects are complex developments which are within existing estate boundaries and therefore as part of the planning, the Council (acting as developer) is required to improve existing blocks for the betterment of existing residents and provide new and additional doorstep play for children. This has created budgetary pressures as the original approved budget is based on a traditional newbuild scheme whereas both schemes are required to invest in existing council owned accommodation to offset impact of the infill development. The works to the existing blocks will improve the accommodation and access and had been programmed as part of the major

works programme in future years. Therefore, the revised proposals seek to reprofile the works and cashflow in line with the new development programme.

36. In totality this means the average base cost per unit (£300k) has increased and the budgetary requirement of £129m (Exeter Road c.£67m and Upton and Raynham c.£61m) reflects the additional improvements necessary to weave the new development in with the existing. It is expected that part of these project costs will be funded from the investment programme as these works will improve the existing estates and are built into the long-term programme. Cabinet approval for the overall budget and contract award will be sought in January.

37. To offset the increased costs and trajectory for build cost inflation over the next 24 months, the cost per unit will increase to £400k for newbuild projects and £450k for regeneration schemes. However, efficiencies in design will continue to be driven as over the full term of the HRA Business Plan, direct development cannot be sustained at that rate and therefore the development team will be expected to deliver schemes under those thresholds.

38. In light of these pressures a financial review of the development programme has been completed. The main changes to the programme and viability assessment are as follows:

    a. The average build cost has been reviewed, with the previous programme including an average build cost of £300k per affordable unit. Based on current market conditions this has been increased to an average £400k per unit. The estate regeneration average build cost remains at £450k per unit. This will however continue to be reviewed based on market conditions with the aim of driving this downwards.
    b. The programme has been reprofiled to reflect the approved Joyce and Snells project budget. This has reduced the expected capital expenditure requirement over the 10-year period by £94.8m and this in turn has reduced the overall borrowing requirement.
    c. The extension of homes beyond the 10-year period reflects the Joyce and Snell's regeneration programme which is a complicated decant programme and therefore requires phased starts and completions based on securing block decants. Phases 0-3 are currently forecast to commence works from late 2022, subject to planning and contractor market.
    d. Acquisitions of affordable homes from the market or on estate regeneration schemes will be based on lower cost per unit and not exceeding £350k (long term build cost rate) to reduce growth in future years.
    e. Updated AHP programme, reflecting secured grant levels from the GLA, following successful funding bid. Enfield secured £166.5m which will contribute towards funding 1,119 new homes in the Borough.
    f. The loan repayment period has been increased from maximum of 40 years to maximum 50 years based on asset life assumptions (consistent with accounting policies in published statement of accounts)

and repayment of debt. This will be used when assessing the viability of future schemes.

g. The NPV has been reviewed considering the increased build cost and extended repayment period and has resulted in the hurdle rate changing from a negative £50k per unit to negative £60k per unit**.**

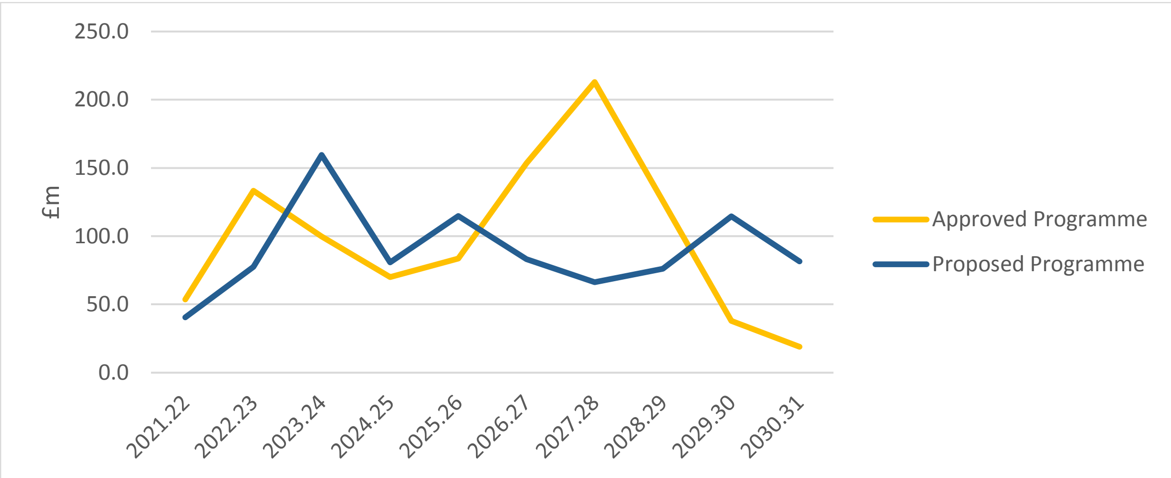
Table 1

Hurdle Criteria	Current Approved	Proposed
Build cost per unit	£300k new build £450k estate regeneration	£400k new build £450k estate regeneration
Net Present Value (NPV) – cashflows include inflation assume discount rate of 3.5%	-£50k per unit	-£60k per unit
Internal rate of return (IRR)*	3.5%	3.5%
Repayment period	40 years	50 years

***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*

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

Graph 1



40. The graph shows that the budget reprofiling has reduced costs in the next two years, with future costs smoothed based on a more realistic delivery model.

41. The updated 30-year development programme with funding is summarised below:

Table 2

Development Programme	Total Homes	Total Affordable Homes	Total Scheme Costs	Total GLA Grant	Total RTB & S106 Receipts	Total Other Receipts	Total Headroom required
			£m	**£m**	**£m**	**£m**	**£m**
AHP 2016-23, On Site	629	604	151.2	35.4	0.5	15.6	99.8
AHP 2016-23, Committed	780	738	239.0	41.1	26.0	31.0	140.8
AHP 2021-26 Council led	1,755	1,212	713.8	149.0	0.0	472.3	92.5
Future Projects	336	336	113.3	39.8	0.0	4.2	69.3
	3,500	**2,890**	**1,217.4**	**265.3**	**26.5**	**523.2**	**402.4**

42. **Right to Buy (RTB) Receipts**

43. The Government has published new legislation on the use of RTB receipts and the following changes have been made with effective from 1st April 2021:

    a. For new and existing receipts, they have extended the timeframe local authorities have for spending Right to Buy receipts from 3 to 5 years
    b. Increase on the cap on the percentage cost of a new home that local authorities can fund from Right to Buy receipts from 30% to 40%
    c. Introduced a cap on the use of Right to Buy receipts on acquisitions to help drive new supply.
    d. Allow receipts to be used for shared ownership and First Homes

44. Overall the changes are positive and will be of benefit to Enfield. It allows us flexibility in the use of the receipts and will assist in considering other options for the future development programme.

45. Since the last HRA Business Plan update (Feb 2021) the main changes are that due to the nature of works required at Exeter Road, only the newbuild would be eligible for grant. This means that overall the scheme is less viable with grant as currently this only represents 10% of the total scheme costs whereas the changes to use of unspent RTB mean up to 40% can be applied to eligible costs and therefore improves viability overall.

46. 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.

47. **Estate regeneration**

48. Ladderswood

49. In 2011 the Council entered into a Development Agreement (DA) with the New Ladderswood LLP, which subsequently received planning for 517 new homes with a 71%/29% private/affordable tenure mix.

50. There have been a number of changes to the project over the last few years that require the DA to be amended by a Deed of Variation (DoV) to regularise the project for both the Council and the delivery partner. The main change originated from the Council adopting a supplementary planning document in 2012 which required sites to connect to a heat network. This resulted in the Developer redesigning the masterplan to deliver an Energy centre and satisfy the Council's requirement for Energetik as the ESCO for the project. The original costs have been independently verified by a Quantity Surveyor to confirm the adjustments to projected income are eligible for the Energy Centre, security costs and associated fees.

51. As Phases 1-3 are now complete, ahead of Phase 4 commencing the Council will be seeking to enter into a DoV. This will, regularise the costs and overage assumptions, update current phasing plans, programme and tighten clauses around Long Stop Dates, to enable the future phases to commence and deliver as per the agreed changes.

52. New Avenue

53. Countryside Properties (CPUK) was selected as development partner for the New Avenue project by Cabinet in October 2014 (KD3793). The principle outcome of the project was the reprovision of 140 Council homes as part of a high-quality estate renewal project. CPUK obtained planning permission for 408 units (after tendering for 451 units). Given the requirement to deliver a minimum of 140 affordable housing units, this led to a provision of 34% affordable housing (all social rented, bar a small number which could become shared equity to facilitate resident leaseholders who wish to stay on the estate to do so).

54. Given the lower than anticipated number of homes planning permission was obtained for which reduced land receipts payable, it was always the intention of both the Council and CPUK that a revised planning application would be made (and an obligation to make an application included in the development agreement). Both the Council and CPUK agreed that scheme should be optimised to increase the proportion of family sized homes within the Council's supply of social housing, increase the range of affordable products and provide enhanced transport options through increased Section 106 (S106) contributions.

55. Through a S73 application, CPUK are seeking to increase the number of homes from 408 to 502 in line with the original objectives of the scheme. Currently over [100] homes have completed on site in Phase 1.

56. **Borrowing and interest rates update**

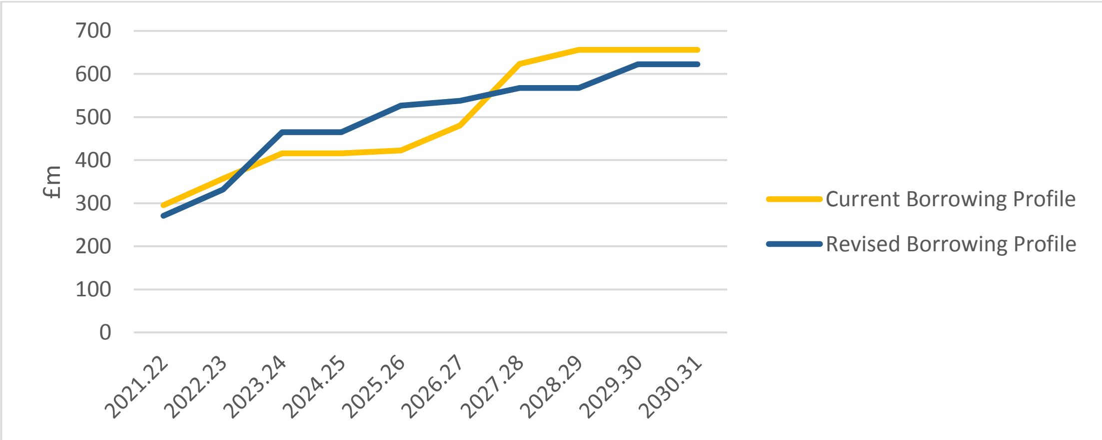
57. The current level of borrowing within the HRA is £236.6m. This level was due to increase by £419.6m over the next 10 years, however due to the reduction of spend in the capital programme the borrowing requirement has reduced to £386.0 over this period.

58. The below table and graph show the movement in the borrowing profile over the next 10 years:

Table 3

	Current borrowing profile	**Revised borrowing profile**	**Difference**
	£m	**£m**	**£m**
2020/21	59.0	34.0	-25.0
2021/22	61.0	61.2	0.2
2022/23	59.0	132.8	73.8
2023/24	0.0	0.0	0.0
2024/25	6.6	62.0	55.4
2025/26	58.0	11.0	-47.0
2026/27	143.0	30.0	-113.0
2027/28	33.0	0.0	-33.0
2028/29	0.0	55.0	55.0
2029/30	0.0	0.0	0.0
Total	**419.6**	**386.0**	**-33.6**

Graph 2



59. Borrowing assumptions within the Business Plan are based on PWLB loans at 2.5% until 2022-23 then 3.5% onwards. 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. Interest is charged annually over the life of the loan.

Lease proposals

60. The Council has been approached by organisations representing external investors with lease products which would increase housing supply in line with Council objectives.

61. Key points to note about these proposals are as follows:

    a. Council committed to pay annual lease payments over a 40 – 50 years in return for exclusive use of residential units, and assume responsibility for all management, maintenance and insurance

    b. Lease payments based on inflation plus an uplift although annual increases capped at 4% - 5% to limit exposure

    c. Rents charged by Council but are subject to Rent Regulations therefore risk is income may not keep up with lease payments, accentuated by RTB.

    d. Construction risk would however be with the Lessor, not the Council therefore no exposure to increasing construction costs

62. The proposals, which are not homogenous, require detailed review by Legal Services to ensure all risks are identified with appropriate mitigations are deployed.

63. On this basis it is proposed to introduce the following criteria to assess future proposals:

    a. Value for money – present value of lease payments must not exceed £400k and £450k per unit for new build and regeneration scheme respectively

b. Capital Financing Requirement (CFR) – finance lease obligation will be counted as an increase in the Council's overall CFR which is used to assess the Council's financial standing and ability to service is debts; the impact will therefore have to be assessed as part of the Council's annual Treasury Management Strategy Statement.

c. Lease inflation – lease payment could potentially overtake annual rent increases; rent regulations do not clarify increases beyond 2025. A lower cap on lease inflation will be required to ensure viability across a range of plausible scenarios.

d. Revenue impact – positive revenue impact will need to be evidenced from year three onwards to ensure the lease products contribute to reserves after considering interest costs.

64. **Investment programme**

65. The investment programme has also experienced challenges this year (2021-22) arising from the current market conditions. As with the development programme there has been cost pressures for materials and labour which has seen requests for price increases in our current and future contracts and time delays as these are assessed and agreed as appropriate. These costs are currently being negotiated and will be retained within the approved budget, with contingency being used in these instances.

66. This issue has also impacted delivery of the programme, with budgets reprofiled into future years to reflect actual delivery. It should be noted that work on budget reprofiling for the 2022-23 programme is ongoing and will be reported and updated in the quarterly monitoring reports.

67. A principle of schemes which involve infill development is that the capital programme priorities will be aligned to the development programme so that investment works in existing stock can be linked to development of new homes. This will include the improvement works to existing estates as part of the Exeter Road and Upton and Raynham proposed development projects.

68. The updated 10-year investment programme is shown below, and this is subject to review of the Asset Management Strategy in respect of requirements from 2023/24:

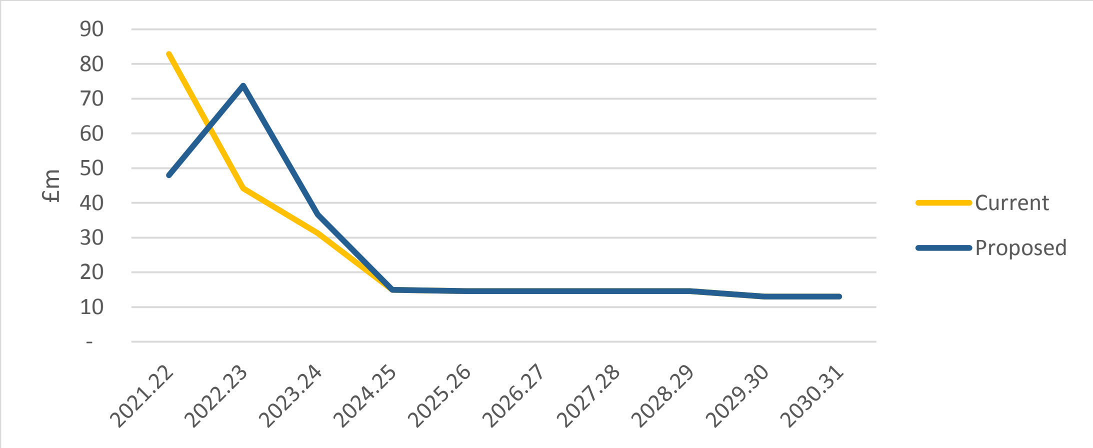
Table 4

10 Year Capital Programme	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Future years**	**TOTAL**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Asset-Led Works	1,483	3,805	0	0	0	0	**5,288**
Asset-Led Works: Cambridge Road West	1,497	3,950	0	0	0	0	**5,447**
Asset-Led Works: Upper Edmonton	5,134	719	0	0	0	0	**5,852**
Demand-Led Works	195	1,050	850	0	0	0	**2,095**
Demand-Led Works: Aids & Adaptations	1,337	1,100	1,500	0	0	0	**3,937**
Demand-Led Works: Structural Repairs	0	0	0	0	0	0	**0**

Fire-Led Works	8,404	34,558	7,476	0	0	0	**50,438**
Stock-Condition-Led Works	29,695	24,598	22,793	0	0	0	**77,086**
Stock-Condition-Led Works: Boroughwide	150	4,000	4,000	14,933	14,539	69,695	**107,317**
Investment in Stock Total	**47,895**	**73,780**	**36,619**	**14,933**	**14,539**	**69,695**	**257,460**

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

Graph 3



70. The graph shows that the budget reprofiling has reduced spend this year to reflect delays in contracts on site and at procurement stage.

71. Works in year include a range of measures to address the decent homes standard – external works, covering as necessary; roofs, windows, brick repairs, rainwater goods and communal electrics, security doors and tv aerials will be carried out to 488 homes.

72. Additionally, 545 kitchens and 345 bathrooms, together with any separate WCs and associated electric rewires. 1,300 boiler replacements are also programmed and will assist in reducing future energy bills for tenants, which will positively impact fuel poverty.

73. Building Safety works for fire stopping, sprinklers and to address actions arising from Fire Risk Assessments, have commenced for 89 flats at Brittany House and to two Higher Risk Buildings (HRBs) of 13 storeys a piece

74. We are currently in process for property and land disposals to a potential value of £1.85m. This covers 7 minor sales for example, on pieces of land adjacent to property which was not included in the original sale and 7 units where sale is proposed to a housing partner or via auction. All locations are checked by Development colleagues for any additional homes potential before any sale is progressed.

75. A bid for grant to assist in our decarbonisation objectives from the Green Homes Fund and Business, Energy and Industrial Strategy (BEIS) Local Authority Delivery (LADs) scheme has been successful and we have secured £1.4m grant over the next two years. This grant will assist in meeting zero carbon status in a number of our homes. This year this includes external wall insulation to 48 street properties alongside 138 non-LAD funded properties that will be carried out.

76. An application has been submitted for Wave 1 of the Social Housing Decarbonisation Fund (SHDF) as part of a wider bid being led by London Borough Barking & Dagenham. This is for EnergieSprong deep retrofit works aimed at net zero carbon and if successful, Council spend on this project will commence this financial year and be match funded up to the value of c.£2m.

77. **Revenue Budget**

78. In February 2021 the Council Housing restructure was approved, with a vision to provide a service fit for the future and able to support the current and future needs of our residents and communities. The model provides a stronger focus on place management and support for residents who have additional needs.

79. Changes to lifestyles as a result of the pandemic have led to more rubbish and waste being present on Council estates. In order to respond additional investment towards improved external standards across the Borough of £1.25m has been agreed this year. The improvements include:

   a. additional collection crews to carry out refuse collection from Council Housing Estates to deal with the excess waste and rubbish generated on housing estates

   b. an additional team to enhance street cleansing and provide a satisfactory/ good service for the removal of fly tips

   c. A window cleaning programme for 623 low rise blocks and 52 towers meaning there will be a 'reach and wash' arrangement for low rise blocks and abseiling for towers.

   d. Introduction of an annual deep cleaning programme which includes pressure washing, deep cleaning of bin chambers and gulley's on our estates.

   e. Improvement of the ground's maintenance service, additional staff will work on our estates to achieve a higher frequency of cutting grass and shrubs and to improve the quality of finish

80. In addition to this investment resources have been deployed into enforcement to help shift behaviour, reducing the need for ongoing services at this level. Part of these additional costs will be funded from increased service charges, but the work to assess costs and the consultation strategy is still on going.

81. A review of the management and maintenance cost per unit is underway to ensure we offer value for money and assist in measuring performance against Housemark benchmarks/industry standards. In particular we will be focusing on management costs to ensure operate within the parameters of our financial strategy.

82. Energy wholesale market prices have reached records highs, with winter 2021 gas and electricity prices increasing on average by 200%. The current Housing energy contract was secured prior to these significant increases, with current prices secured until September 2022.

83. The Council has stopped the de-designation of the Sheltered Housing service following feedback from residents and whilst we explore how best to provide housing for older residents in the future. A review of the current

sheltered housing offer and potential new models will be undertaken in the next financial year. This service is rechargeable to tenants and may impact rental income assumptions for 2022-23.

84. **CPI Update**

85. The Governments Rent Standard sets out how Councils should increase rents by up to CPI + 1% until 2024/25, based on the preceding September published CPI.

86. 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.

87. The September CPI was published in October at a rate of 3.1%. In following the rent standard in 2022-23 rents will increase by 4.1%, this is an increase of 1.1% to the estimated CPI of 2%. This increases the rent roll by £2.6m.

88. This will result in net additional revenue resources of £12.5m over the life of the 30-year Business Plan over that approved by Council 2nd March 2021 (KD5212). This additional income will assist in funding the future capital programme.

89. The table below shows the current average rent per week with the proposed rent increase for 2022-23:

Average Weekly Rent	2021-22	2022-23
Social	103.09	107.32
Affordable	175.96	183.18

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

91. **Financial Framework**

92. 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.

93. 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

94. 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.

95. The financial metrics on the updated Business Plan are shown below:

Table 5

Metrics	ICR	LTV
Limits	**>1.25**	**<50%**
2021-22	1.71	40%
2022-23	-4.34	48%
2023-24	-0.47	65%
2024-25	0.57	62%
2025-26	1.48	67%
2026-27	1.62	66%
2027-28	1.69	66%
2028-29	1.79	52%
2029-30	1.97	53%
2030-31	2.10	50%

96. The current business plan has been measured against these metrics and shows in 2021-22 the current ICR is 1.71 and the LTV is 40%. These are within our current targets, however in the next five years high levels of borrowing have impacted our ability to reach the desired metrics.

97. The ICR is currently below the level required for the next three years from 2022-23. This is due to the amount of legacy works (decent homes and fireworks) that need to be completed to reach decent homes standards on our properties. Once these works have been completed the ICR starts to rise towards the recommended level over the short to medium term.

98. In comparison to last year the reduction in interest costs has increased the ICR positively this year (2021-22). However, the ICR has seen a decrease in improvement over the next five years, due to increased borrowing levels in the early years.

99. The LTV metric is also below the expected levels required and this is mainly due to borrowing levels. In order to continue to deliver Council priorities this investment is key. In the medium-term technology improvements will assist in driving service and financial efficiencies.

100. Again, in comparison to last year (2021-22), the LTV has positively improved. However, the next five years have seen a negative increase in this metric, due to increased borrowing in the early years.

101. Improvement in these hurdles could be achieved by further revenue efficiencies or increased income.

102. We continue to set an annual £1m efficiency target against management and maintenance budgets for the next 5 years in order to assist in reaching optimum levels. The target was achieved in 2020-21, with work ongoing to reach the target this year. Below is a summary of savings and pressures to date:

Table 6

Savings	**£000's**
Interest rate on borrowing reduction	(2,000)
Rent on office space - reduction in charge	tbc
Housing Operations restructure – final tbc	(300)
Total Savings	**(2,300)**
Pressures	
Redundancy costs – final costs tbc	435
Improved External standards (full year cost)	550
Total	**985**
Net Savings	**(1,315)**

103. 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. The current minimum balance is £6m per annum, balances will not go below this level.

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

Table 7

Assumption	**Current Approved**	**Proposed**
Inflation (CPI)	2%	3.1%
Efficiency savings per annum	£1m	£1m
Borrowing levels	£656.2m	£622.6m
Borrowing Rate	3.5%	2.5% until 22-23, then 3.5% for life of plan
Development Programme delivery period	13 years	14 years
Build cost per unit	New build £300k Regeneration £450k	New build £400k (AHP) Regeneration £450k New build £350k post AHP
Net Present Value (NPV) assessment criteria	- £50k per unit	- £60k per unit
Repayment period	40 years	50 years
Grant Levels per unit	Max Affordable £150k & Shared Ownership £50k	Max Affordable £150k & Shared Ownership £50k
Private Sale & Shared Ownership sale value per unit	£400k	£400k
Contingency within each project	10%	10%
Minimum reserve levels	£6m	£6m

105. The proposed changes in assumptions are based on market knowledge and have been reviewed to ensure they are in line with current market conditions.

106. The main changes are described below:

107. The current borrowing rate assumption in the business plan is 3.5% for the 30-year life of the business plan. Current interest rates are low, and borrowing can be secured at a lower level in the short term. It is proposed to therefore reduce the interest rate to 2.5% for 2021-22 and 2022-23, then continue with the current assumption of 3.5% for the remaining years. This proposal will be included in the updated Treasury Strategy report going to full Council in March 2022.

108. As stated in the Development Programme section of the report, the average build cost has been reviewed and is proposed to increase from £300k to £400k per unit for new projects in the Affordable Homes Programme, with £350k estimated for the future programme post 2026.

109. The overall programme has an average build cost of £364k per unit. This is based on the overall cost of developing 3,500 new homes as part of the Development programme. Since this programme started in 2019-20, completed/on site schemes have seen lower build costs than we are now experiencing, this has reduced the average build cost across the programme.

110. Market testing on projects that are at planning/tender stages, has shown a 10% build cost inflation along with material supplies being constrained.

111. Royal Institute of Chartered Surveyors (RICS) have recently published a statement (below) on the Building Cost Information Service (BCIS) five-year forecast, which summarises the pressures on tender prices from rising material prices and longer supply times as a result of Brexit and Covid-19.

Tender prices will rise by 21% over the forecast period (2021 to 2026). Tender prices are expected to rise by 3.9% in 2nd quarter 2022 compared with the same quarter in 2021, driven, in particular, by sharp materials cost increases and longer supply times. With demand increasing over the remainder of the forecast, and with less contractors in the market (liquidations during Covid-19), tender prices are forecast to increase faster than input costs, rising by around 3% to 4% per annum. If the access to European labour returns in the latter part of the forecast period it will ease the pressure on site rates and tender prices.

Although government guidance removed social distancing requirements on site in mid-July, contractors seem unlikely to change their Standard Operating Procedures immediately.
The BCIS Materials Cost Index shows that materials prices rose by 4.6% in 2nd quarter 2021 compared with the previous quarter, and by 10.0% compared with a year earlier. The forecast for 3rd quarter 2021 shows an increase of 2.8% compared with 2nd quarter 2021, and a 13.1% annual increase. Anecdotally, there has been a lot of concern about materials shortages this year, which has been reflected in longer lead times, higher prices and price volatility.

Materials shortages have resulted from a combination of a number of factors:

- *Covid-19 has affected supply from mills and factories,*
- *supply chain bottlenecks due to global demand shocks,*
- *shortage of haulage drivers,*
- *container shortages and port delays,*
- *construction demand fluctuations - sharp falls in the first half of 2020 followed by a steep recovery since,*
- *increased administration at UK ports affecting imports and exports due to UK EU Trade and Cooperation Agreement,*

- *sharp rises in shipping costs and temporary surcharges.*

Longer lead times for the supply of materials are likely to be reflected in the BCIS Market Conditions Index, with additional preliminaries costs, and will put upward pressure on tender prices.

The Construction Leadership Council (CLC) has called for the inclusion of new contract clauses to allow for sharing the risk of sharp increases in materials and we may see a return to fluctuating price contracts for longer contract periods, but this is not allowed for in our forecasts.

Materials prices will rise by 15% over the forecast period (2021 to 2026). The main risks to materials prices will be difficulty in obtaining materials during the Covid-19 crisis, oil prices, tariffs on imports.

Building costs will rise by 15% over the forecast period (2021 to 2026).
New construction output will rise by 31% over the forecast period (2025 compared with 2020). This increase is exaggerated by the pandemic induced 16% fall in 2020.

112. Appendix C shows the GLA's published average development costs for London Boroughs in February 2021. Although slightly out of date this data shows the average build cost across London at this time was £419k. As these current market conditions are a national problem and will impact on all Councils development programmes costs, increasing the build cost for Enfield's future developments is still within London averages.

113. The NPV hurdle criteria per unit has been reviewed in light of the increase in build cost and repayment period changes and has been increased from -£50k to -£60k per unit.

114. This hurdle review has been based on a proval assessment of a 2-bed affordable unit at build cost of £400k and grant rate of £150k, with all other assumptions remaining unchanged. The results show that the following hurdle rates:

    - NPV - £61k per unit
    - IRR – 3.5% per unit
    - Repayment period – 49 years

115. Therefore, it is proposed there is an update to the hurdle rate to reflect the increase in costs of building new homes.

116. Future assessments completed on development schemes will be based on these measures. Some schemes will perform better than others with cross subsidy assisting in approving schemes hurdle rates, however smaller units will have an adverse impact on these rates. As an average this updated rate will assist schemes meeting the criteria to move projects forward and build new homes.

117. The loan repayment period has also been reviewed and its proposed to increase from 40 to maximum 50 years. As stated above in the report, this has been assessed based on the asset life assumptions, consistent with accounting policies in the published statement of accounts.

118. **Financial Risks**

119. 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.

120. 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 will have a significant impact on the Business Plan.

b. The build cost is based on market intelligence and may in some circumstances be higher as the market is extremely volatile. Significant cost increases experienced due to combined impact of Brexit, Covid-19 and constrained supply chains have been reflected in the revised build cost per unit. Market conditions will be monitored closely as any impact on build costs would impact the number of units we are able to deliver. A 10% contingency is built into all project budgets to mitigate this risk.

c. There are 610 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.

d. 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

e. Borrowing rates are assumed at 2.5% until 2022-23 then 3.5% for the 30-year business plan - if this rate was to increase this would affect borrowing capacity and will impact on the viability of the business plan.

f. 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.

g. Decent homes 2 and future building regulation changes including zero carbon agenda and potentially decent homes standard 2, will require additional funding in the long term, there is currently no long term funding built into the Business plan.

Safeguarding Implications

121. There are no safe-guarding implications

Public Health Implications

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

Equalities Impact of the Proposal

123. The HRA 30-Year Business Plan supports the delivery of high-quality services that promote equality and values diversity

Environmental and Climate Change Considerations

124. There are no Environmental and Climate Change considerations

Financial Implications

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

Legal Implications

126. The Council must maintain a Housing Revenue Account ("HRA") in accordance with section 74 of the Local Government and Housing Act 1989 (as amended) (the "1989 Act"). The duties in the 1989 Act include in January or February each year to formulate proposals relating to HRA income and expenditure, based on best assumptions and estimates at that time, and that implementation of these proposals will secure that the account for that year does not show a debit balance. The proposals are contained in this report
127. By section 24 of the Housing Act 1985 (as amended) ("the 1985 Act") the Council has a broad discretion in setting such reasonable rents and other charges as it may determine and must from time to time review rents and make such changes as circumstances may require. This is subject to the 1985 Act's requirements for notice of a variation which can only take effect four weeks or the rental period (whichever is longer) from the date on which it is served
128. Further, pursuant to the Housing and Regeneration Act 2008 the Secretary of State has made a direction on the rent standard, which imposed a requirement on the regulator of social housing to set a rent standard in accordance with the policy statement, with effect from April 2020. This now must be complied with in setting and changing rent levels for social rent and affordable rent housing
129. The Council also has the power pursuant to the 1985 Act to alter, repair or improve its housing stock and a duty under the Landlord and Tenant Act 1985 (as amended) to ensure repairs to its properties are carried out effectively and in a timely manner. Furthermore, under the terms of the leases granted under the right to buy scheme, the Council has an obligation to leaseholders to repair and maintain its housing stock
130. The Council has a power under section of the 111 Local Government Act 1972 to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions The Council also has a general power of competence under section 1(1) of the Localism Act 2011 to do anything that individuals generally may do, provided it is not prohibited. by legislation and subject to public law principles The recommendations set out in this report are consistent with the Council's powers and duties.

Workforce implications

131. There are no workforce implications

Property Implications

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

Report Author: Matt Bowmer
Director of Finance
Matt.Bowmer@Enfield.gov.uk
0208 379 5580

Date of report: 29th October 2021

Appendices: A & B 30 year Revenue and Capital budgets; C London AHP average build cost

Background papers: Q2 HRA monitoring 2021/22

Appendix A

HRA Revenue Budget 30 years	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032-2050	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Dwelling Rents	57.2	59.8	62.7	67.6	71.2	74.9	78.8	81.5	85.9	87.4	2,212.8	2,939.7
Service Charges Tenants	3.4	3.5	3.5	3.6	3.7	3.9	4.0	4.1	4.3	4.4	111.1	149.6
Service Charges Leaseholders	5.0	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.1	150.0	205.5
Voids	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-22.8	-30.4
Non Dwelling Rents	3.6	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.3	4.4	109.2	149.6
RTB Administration Income	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	1.0	2.1
Total Income	**68.8**	**71.8**	**74.9**	**79.9**	**83.7**	**87.7**	**91.9**	**94.9**	**99.6**	**101.5**	**2,561.4**	**3,415.9**
Responsive Repairs	-15.3	-15.9	-16.3	-16.8	-17.9	-18.4	-19.0	-19.5	-20.1	-20.5	-515.7	-695.4
Supervision & Management	-14.7	-15.2	-15.5	-16.1	-17.1	-17.6	-18.1	-18.6	-19.2	-19.6	-481.2	-652.8
Special Services	-6.7	-6.9	-7.1	-7.2	-7.4	-7.5	-7.7	-7.8	-8.0	-8.1	-201.2	-275.5
Rents Rates Taxes & Other Charges	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-13.5	-20.3
Bad Debt	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-22.4	-30.0
Depreciation of Fixed Assets	-11.4	-11.7	-12.1	-12.7	-13.3	-13.9	-14.5	-15.0	-15.7	-16.0	-405.5	-541.6
Expenditure	**-49.4**	**-51.0**	**-52.3**	**-54.2**	**-57.0**	**-58.9**	**-60.7**	**-62.4**	**-64.5**	**-65.7**	**-1,639.6**	**-2,215.7**
Net (Cost) Of Services	**19.4**	**20.7**	**22.6**	**25.7**	**26.6**	**28.8**	**31.2**	**32.5**	**35.1**	**35.7**	**921.8**	**1,200.2**
Loan Interest	-10.0	-11.5	-16.1	-16.1	-18.3	-18.7	-19.7	-19.7	-19.6	-19.6	-375.3	-544.8
Interest Income	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	9.1	10.7
Notional Cash Interest	0.0	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.0	0.0	50.8	52.0
Capital Account Adjustments	**-10.0**	**-11.2**	**-15.9**	**-15.9**	**-17.9**	**-18.3**	**-19.4**	**-19.3**	**-19.4**	**-19.4**	**-315.4**	**-482.1**
Net Operating Income / (Expenditure)	**9.4**	**9.5**	**6.6**	**9.8**	**8.7**	**10.5**	**11.8**	**13.2**	**15.7**	**16.3**	**606.4**	**718.1**

Appendix B

HRA Capital Budget 30 years	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032-2050	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
CAPITAL PROGRAMME												
HRA Planned Renewals	47.9	73.8	36.6	14.9	14.5	14.5	14.5	14.5	13.0	13.0	311.7	569.2
New Build Properties - Eligible	40.5	77.4	159.6	80.7	114.7	83.2	66.3	76.0	114.6	81.5	225.8	1,120.3
Total Capital Programme	**88.3**	**151.2**	**196.2**	**95.6**	**129.2**	**97.8**	**80.9**	**90.6**	**127.6**	**94.6**	**537.5**	**1,689.5**
CAPITAL RESOURCES												
Major Repairs Reserve	11.4	11.7	12.1	14.1	14.5	15.0	14.5	14.5	13.0	13.0	54.8	188.8
Borrowing	34.0	61.2	132.8	0.0	62.0	11.0	30.0	0.0	55.0	0.0	0.0	386.0
Grant Funding	6.7	17.3	9.1	21.1	13.1	34.9	9.4	25.3	17.3	24.1	63.8	242.2
Useable One-to-One RTB Receipts	0.7	16.8	14.6	6.0	1.7	1.3	1.4	1.6	1.7	1.7	27.2	74.7
Other Capital Receipts	1.6	1.7	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.9	23.0	32.8
Other Sources Of Finance	11.0	21.1	19.9	53.6	37.0	15.2	24.7	33.7	5.7	54.9	368.7	645.6
Revenue Contributions To Capital Total	22.9	21.4	6.9	0.0	0.0	19.5	0.0	14.6	34.0	0.0	0.0	119.4
Total Capital Resources Detail	**88.3**	**151.2**	**196.2**	**95.6**	**129.2**	**97.8**	**80.9**	**90.6**	**127.6**	**94.6**	**537.5**	**1,689.5**

Appendix C

Homes for Londoners: Affordable Homes Programme

February 2021

Assumed total development costs, split by size, tenure and borough location

Borough	Social rent/AR			London Living Rent			Shared ownership			OVERALL
	1 bed	2 bed	3 bed	1 bed	2 bed	3 bed	1 bed	2 bed	3 bed	Average
Barking and Dagenham	£244,013	£290,048	£339,151	£244,013	£290,048	£368,477	£253,391	£301,983	£353,814	£298,326
Barnet	£280,992	£328,243	£378,644	£280,992	£328,243	£408,745	£290,617	£340,494	£393,695	£336,741
Bexley	£239,654	£285,689	£334,792	£239,654	£285,689	£364,118	£249,031	£297,623	£349,455	£293,967
Brent	£351,927	£399,178	£449,580	£351,927	£399,178	£479,680	£361,553	£411,429	£464,630	£407,676
Bromley	£292,530	£339,781	£390,183	£292,530	£339,781	£420,283	£302,156	£352,032	£405,233	£348,279
Camden	£527,644	£581,673	£639,304	£527,644	£581,673	£673,723	£538,650	£595,681	£656,513	£591,389
City of London	£563,965	£620,601	£681,013	£563,965	£620,601	£717,092	£575,502	£635,284	£699,052	£630,786
Croydon	£287,475	£334,727	£385,128	£287,475	£334,727	£415,228	£297,101	£346,977	£400,178	£343,224
Ealing	£348,070	£399,875	£455,133	£348,070	£399,875	£488,134	£358,623	£413,305	£471,634	£409,191
Enfield	£277,319	£324,570	£374,972	£277,319	£324,570	£405,072	£286,945	£336,821	£390,022	£333,068
Greenwich	£324,622	£371,873	£422,274	£324,622	£371,873	£452,375	£334,247	£384,123	£437,324	£380,370
Hackney	£366,650	£418,454	£473,713	£366,650	£418,454	£506,714	£377,203	£431,885	£490,213	£427,771
Hammersmith and Fulham	£459,003	£515,639	£576,051	£459,003	£515,639	£612,130	£470,540	£530,323	£594,091	£525,825
Haringey	£353,634	£400,885	£451,286	£353,634	£400,885	£481,387	£363,259	£413,135	£466,337	£409,382
Harrow	£281,141	£328,392	£378,793	£281,141	£328,392	£408,893	£290,766	£340,642	£393,843	£336,889
Havering	£239,376	£285,410	£334,514	£239,376	£285,410	£363,839	£248,753	£297,345	£349,177	£293,689
Hillingdon	£255,236	£301,271	£350,374	£255,236	£301,271	£379,700	£264,613	£313,205	£365,037	£309,549
Hounslow	£311,378	£363,183	£418,441	£311,378	£363,183	£451,442	£321,931	£376,614	£434,942	£372,499
Islington	£434,174	£488,203	£545,834	£434,174	£488,203	£580,253	£445,180	£502,211	£563,044	£497,920
Kensington and Chelsea	£656,970	£713,606	£774,018	£656,970	£713,606	£810,097	£668,507	£728,289	£792,057	£723,791
Kingston upon Thames	£330,818	£378,069	£428,470	£330,818	£378,069	£458,570	£340,443	£390,319	£443,520	£386,566
Lambeth	£351,535	£403,340	£458,598	£351,535	£403,340	£491,599	£362,088	£416,771	£475,099	£412,656
Lewisham	£335,976	£387,780	£443,038	£335,976	£387,780	£476,040	£346,528	£401,211	£459,539	£397,096
Merton	£332,524	£379,775	£430,176	£332,524	£379,775	£460,277	£342,149	£392,025	£445,227	£388,273
Newham	£318,166	£365,417	£415,819	£318,166	£365,417	£445,919	£327,792	£377,668	£430,869	£373,915
Redbridge	£256,349	£302,384	£351,487	£256,349	£302,384	£380,813	£265,726	£314,318	£366,150	£310,662
Richmond upon Thames	£372,482	£424,286	£479,545	£372,482	£424,286	£512,546	£383,035	£437,717	£496,045	£433,603
Southwark	£370,266	£424,295	£481,926	£370,266	£424,295	£516,344	£381,272	£438,302	£499,135	£434,011
Sutton	£275,093	£322,344	£372,746	£275,093	£322,344	£402,846	£284,719	£334,595	£387,796	£330,842
Tower Hamlets	£367,518	£419,322	£474,581	£367,518	£419,322	£507,582	£378,071	£432,753	£491,081	£428,639
Waltham Forest	£321,654	£368,905	£419,306	£321,654	£368,905	£449,407	£331,279	£381,155	£434,356	£377,402
Wandsworth	£396,555	£450,584	£508,215	£396,555	£450,584	£542,633	£407,561	£464,591	£525,424	£460,300
Westminster	£585,293	£641,929	£702,341	£585,293	£641,929	£738,420	£596,830	£656,612	£720,380	£652,114