Housing Revenue Account Business Plan and Capacity Update

Final Report.v1
January 2023

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1. Introduction

1.1. Background

The London Borough of Croydon (LBC, the Council) have appointed Savills to support officers in the production of the annual HRA Business Plan.

This builds upon the work undertaken last year in establishing a HRA Business Plan. LBC, like many authorities, need to adopt a new approach to setting out the financial capacity and capability of the HRA to deliver on its objectives towards refurbishment, investment, regeneration and new supply. Consideration of a new approach is also consistent with the requirement for the publication of Prudential Indicators specific to the HRA following their reintroduction alongside the abolition of the debt cap.

Savills have therefore worked with officers to update the HRA business plan that was produced in 2021.22, in respect of projected rent increases, uplifts to repair costs following the re-letting of the contracts that provide this service, but more importantly taking on the results of an initial stock condition survey combined with the results of work undertaken by officers to establish energy efficiency works and undertake building safety.

In the coming months the Council will develop a new Asset Management Strategy that will inform this plan but also reflect the results of a more extensive stock condition survey. Therefore, it is highly likely that this plan will evolve and result in a different profile in terms of stock investment.

This plan is based on the 2022.23 budget and those proposed for 2023.24 proposed budgets with anticipated increases to costs for salary increases and the rise in utility costs, which are greater than those originally forecast. It also incorporates the provisional 2023.24 HRA capital programme.

At this time it excludes any detailed estate regeneration or further acquisition or development programmes. However, provisions have been made for estimates for both works to LPS blocks and additional projects.

1.2. Factors the Sector is Facing

When considering the HRA business plan and its current resources, we must be mindful of the current and future challenges that the social housing sector faces. The following areas are not exclusive, but are the key ones that will impact upon both staffing and financial resources:

<u>Building Safety</u>
Since the tragic consequences of Grenfell Tower, steps have made by Government to ensure that building and fire safety is at the forefront of social housing investment and delivery. This has increased the amount of reporting that is required and where the point of responsibility over how and what data is held. For LBC this has meant implementing new fire safety measures, which not only adds to capital investment but requires ongoing monitoring and maintenance. Recovery for these costs is also difficult from leaseholder due to current lease arrangements. Furthermore additional revenue resource is required in relation to ensuring compliance.

Tenant Satisfaction Measures
The Regulator for Social Housing is responsible for monitoring a range of Tenancy Services Measures, which all Registered Providers (including LBC) will be responsible for collating from April 2023 and external scrutiny from April 2024.

There will be an increased demand from the service to collate data from existing databases (some of which is already being reported) and new tenant surveys assessing satisfaction.

This is a direct outcome from the recent White Paper "The Charter for Social Housing Residents" that sets out what every social housing resident should expect:

- To be safe in your home
- To know how your landlord is performing
- To have your complaints dealt with promptly and fairly
- To be treated with respect
- To have your voice heard by your landlord
- To have a good quality home and neighbourhood to live in
- To be supported to take you first step to ownership

The Tenancy Services Measures are summarised in Appendix 6

1.3. Approach

This report sets out our findings as follows:

1. The results of the latest HRA business plan model in the light of market conditions, policy initiatives and other factors.

2. Outputs from financial modelling and sensitivity testing (where appropriate) to establish alternative an alternative delivery scenario for the business plan.

3. The impact to the metrics and indicators which can form the basis of future management and planning for the HRA.

2. Business plan model

2.1. Introduction

Our latest version of the HRA Business Plan model has been provided and populated in liaison with officers in order to progress the 2023.24 budget process and forms the basis of this report.

It will continue to have revisits in respect of updates to the asset management strategy and any forthcoming estate regeneration schemes as details become more apparent from those included within this plan.

2.2. Overview of methodology and assumptions

Overall

The plan is based on the following overarching principles:
- Balanced to the 2022.23 latest projections for the HRA
- 29 year projections from 2023.24 based on the provisional 2023.24 budget
- Core inflation projected at 2.0% thereafter with exemptions as detailed below
    - 8.4% for April 2023
    - 3.0% for April 2024
    - 2.5% for April 2025
- Rents increasing at CPI per annum with the exception of the following:
    - 7.0% April 2023 (on the basis of the recent rent determination capping increases at this level rather than CPI+1%, which would have been 11.1%)
    - CPI (3.0%) +1% in accordance with the final year of the current social housing rent policy
- Depreciation provision increasing at CPI throughout
- Due to the reletting of new revenue repairs contracts the forecast expenditure for 2022.23 of c£19million will increase to £23.463million for 2023.24. This take into account both inflation but also the increasing costs for ensuring compliance
- Maintenance of the existing tenanted stock (subject to Right to Buy sales) is modelled at a total of £861.240million over the 30 years from 2022.23 equating to £64,551 per unit, although when adjusted to tenanted properties only is £58,822
- Provision of £50million for additional projects in 2024.25 and a 12 year programme of £15.3million per year for LPS Block works
- The inclusion of 40 loans directly attributable to the HRA, that are at fixed interest rates for varying periods.

The overall methodology within the plan is also founded on net rental income servicing the operational expenditure, interest charges, and where required, additional borrowing to finance investment to the stock and loan refinancing when existing loan facilities mature.

The following paragraphs provide more detail to the key elements of the plan.

<u>Rents</u>
The rents contained within the modelling are consistent with the current social rent policy where the increase applied to April 2023 is capped at 7.0% in accordance with the recent determination issued by the Government. This intervention replaces, for one year, the policy increase of CPI plus 1%, which would have resulted in rent increases of 11.1%. The current policy concludes in April 2024 and we have assumed rents will increase by CPI + 1%, resulting in a forecast increase of 4.0%.

Rent levels, as an average for 2023.24, will be £115.73 per week on a 50 week basis and £178.19 for the 232 tenancies on affordable rents.

The rent policy moving forward will be consulted on during 2023 in respect of providing more certainty of rent increases for April 2025 and beyond. At this stage we have made the prudent assumption that rent for April 2025 and beyond will increase by CPI only.

Void rates of 1.66% and Bad Debt provision of 0.9% have been modelled throughout the plan.

Service Charges

In respect of tenants and increase for 2023.24 of 7.0% has been applied, matching the rent increase levels, which is less than forecast levels of inflation for costs, which results in additional under-recovery. We have not modelled any catch-up in terms of charges into future years in order to ensure full recovery of costs. We have modelled service charge increases matching rent increases moving forward.

Leaseholder service charges (for non-capital services) are forecast to increase from £2.015million to £2.052million inclusive of inflation.

Other Income

In terms of garage, a revised forecast has been modelled recognising the higher levels of voids and therefore reducing the levels of income by c22%.

There are a range of other internal recharges between the HRA and General and with the service itself that have been reviewed resulting in a reduction of c16% of budgeted income for 2023.24.

Management

A review has been undertaken for a range of recharges levied to the HRA and these have been integrated the forecast for 2023.24, resulting in a reduction of c17%.

These costs are factored into the 2023.24 forecast and beyond.

Repairs

The forecast position for 2023.24 will see significant growth as a result of the procurement of new repairs contracts but also the cost of ensuring compliance with building safety on account of the additional checks and recording that is required. In overall terms the repairs budget is set to increase by c24%.

Right to Buy sales volumes

The level of sales is modelled at 50 per annum over the next 5 years and then reduces by 2 per annum which accounts for a stock loss of 6.3% over the plan period. It might be expected that LBC will see further reductions in sale volumes on account of stability with house prices but also the availability and affordability of mortgages for prospective purchasers, but the approach taken is prudent. We have made adjustments to both rents, repairs and future investment expenditure to reflect these stock losses.

The HRA also benefits from the receipts from right to buy sales, for those not ring-fenced for new delivery, and these are utilised to fund capital works for the existing stock. This approach, will also be subject to annual review in respect of considering alternative uses.

Capital Works to Existing Properties

In previous iterations capital expenditure forecast were based on the asset management database. However, this was deemed not up to date and did not include provisions for building safety works and energy efficiency improvements.

In order to provide a more accurate position, ahead of the development of a new asset management strategy and comprehensive stock condition survey, Savills were commissioned to provide a 30-year forecast, in conjunction with officers, whilst basing the requirements on a 5% sample survey. This will provide the basis for both this plan but also the new asset management strategy and the recently commissioned stock condition survey that will extend the sample size significantly.

Table 2.1 – Stock Investment Requirements

Element Group	Year 1	Years 2 to 3	Years 4 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Total
Catch Up Repairs	£972,438	£0	£0	£0	£0	£0	£0	£0	**£972,438**
Kitchens	£0	£2,050,000	£5,535,000	£32,800,000	£19,577,500	£7,892,500	£7,585,000	£32,800,000	**£108,240,000**
Bathrooms	£164,000	£246,000	£3,854,000	£6,724,000	£6,396,000	£24,518,000	£13,366,000	£3,936,000	**£59,204,000**
Electrics	£254,200	£305,450	£1,834,750	£6,849,050	£6,586,650	£24,294,550	£12,787,900	£14,659,550	**£67,572,100**
Heating	£0	£358,750	£11,654,250	£15,190,500	£4,223,000	£21,473,750	£22,560,250	£3,403,000	**£78,863,500**
Roofs	£0	£209,100	£7,032,525	£18,600,675	£11,062,825	£8,764,775	£17,881,125	£4,281,425	**£67,832,450**
Walls	£0	£0	£926,600	£45,307,050	£22,875,950	£9,288,550	£10,252,050	£1,143,900	**£89,794,100**
Windows and Doors	£71,750	£597,575	£5,207,000	£19,905,500	£12,156,500	£14,884,025	£9,787,725	£4,996,875	**£67,606,950**
External Areas	£76,875	£47,663	£5,734,363	£15,123,875	£4,485,400	£4,620,188	£1,088,550	£656,513	**£31,833,425**
Communal Areas	£0	£133,250	£1,486,250	£7,185,250	£2,091,000	£1,045,500	£399,750	£379,250	**£12,720,250**
Total Programmed Renewals	**£1,539,263**	**£3,947,788**	**£43,264,738**	**£167,685,900**	**£89,454,825**	**£116,781,838**	**£95,708,350**	**£66,256,513**	**£584,639,213**
Contingency 10%	£153,926	£394,779	£4,326,474	£16,768,590	£8,945,483	£11,678,184	£9,570,835	£6,625,651	**£58,463,921**
Environmental Works	£1,334,200	£2,668,400	£2,668,400	£6,671,000					**£13,342,000**
Building Safety Works	£7,600,000	£15,200,000	£15,200,000						**£38,000,000**
Block M&E	£5,000,000	£10,000,000	£10,000,000	£25,000,000					**£50,000,000**
Structural Works	£1,300,000	£2,600,000	£2,600,000	£6,500,000					**£13,000,000**
SAP C - Energy Efficiency	£10,379,525	£20,759,050	£20,759,050	£51,897,625					**£103,795,250**
TOTAL EXPENDITURE	**£27,306,914**	**£55,570,016**	**£98,818,661**	**£274,523,115**	**£98,400,308**	**£128,460,021**	**£105,279,185**	**£72,882,164**	**£861,240,384**

We have assumed that year 1 is 2022.23 for the purposes of planning.

The current capital programme for 2022.23 is £21.908million plus a provision for fees of £1.8million.

Currently, the proposed capital programme for 2023.24 is £29.275million plus a provision for fees of £2.2million.

Therefore, the plan recognises the capital programmes for 2022.23 and 2023.24 respectively and allocates the resulting shortfall of £4.253million to 2024.25 and draws upon the expenditure profile from the above table from year 3, with a provision of £2.2million for fees.

The above table represents a significant investment in the existing stock, embracing the works required to improve the energy efficiency of homes, improving building safety and ensuring they are maintained at an appropriate standard.

As part of the commission Savills worked with officers to produce an investment requirement that results in the stock becoming zero-carbon and this is modelled as a scenario in the section below.

The overall investment is £861.240million and is works to all tenanted properties but also communal areas and buildings. As LBC currently has 2,585 leaseholders we have made appropriate provisions within the plan for the recovery of the applicable costs of works above the current level budgeted.

<u>Additional Provisions Over and Above Works Identified within the Stock Condition Data Over the Next 10 Years</u>

As part of the asset management strategy, a review of buildings and land will be conducted to establish what might be surplus to core requirements and which could either be sold or developed in partnership with third parties to meet housing need. A number of projects have already been identified that could begin in 2024-25 a prudent estimate of £50m for these projects has been included within the treasury request for future potential borrowing. It is important to note that all building costs are rising rapidly due to inflation and supply issues.

1. Redevelopment work at Regina Road following the outcome of the tenants consultation a decision will be made on the future of the 3 blocks which will require funding.

2. Regeneration programme – an investment programme is required to rebuild or redevelop buildings within the HRA stock particularly those that of an age, type of construction or condition that responsive repairs are no longer value for – for example building over 60 years or LPS blocks.

3. Housing Capacity programme - a review of properties that have potential for further development on the existing site

4. Increase allocation of funding for fire safety & damp and mould works to allow for the additional interventions and mechanical works beyond those within the safety programme.

Therefore the plan assumes expenditure of £50million as a provision in 2024.25. Furthermore, from 2025.26 a twelve year programme of £15.3million per annum has been provided to begin the programme of work in relation to the 13 other LPS blocks within the Borough.

<u>New Build or Development Assumptions</u>
The HRA has recently acquired a number of properties from the Council's development company Brick by Brick and these have been included within the base position of the model in terms of stock numbers, rents and opening debt position. No further acquisitions or new developments have been modelled within this plan.

<u>Interest Rates</u>
The opening debt (HRACFR) for the HRA stands at £365.497million. It is currently financed by 40 fixed loans totalling £334.342million in terms of both interest rates and maturity dates. The average interest rate for these loans is 3.28%. Internal borrowing between the Council's General Fund and HRA is utilised to fund the £31.155million difference and no interest is charged on this on account of no retrospective interest being credited to the HRA for the levels of reserve held. This position may well change as the Could will annually review its treasury management strategy.

As capital expenditure increases above current levels in order to meet the requirements as demonstrated in table 2.1 additional borrowing is required. Currently interest rates are the highest they have been for the last 14 years but the consensus amongst treasury advisors are that they will fall. A rate of 3.2% has been assumed for future borrowing, where required, with the exception of 3.6% in 2024.25.

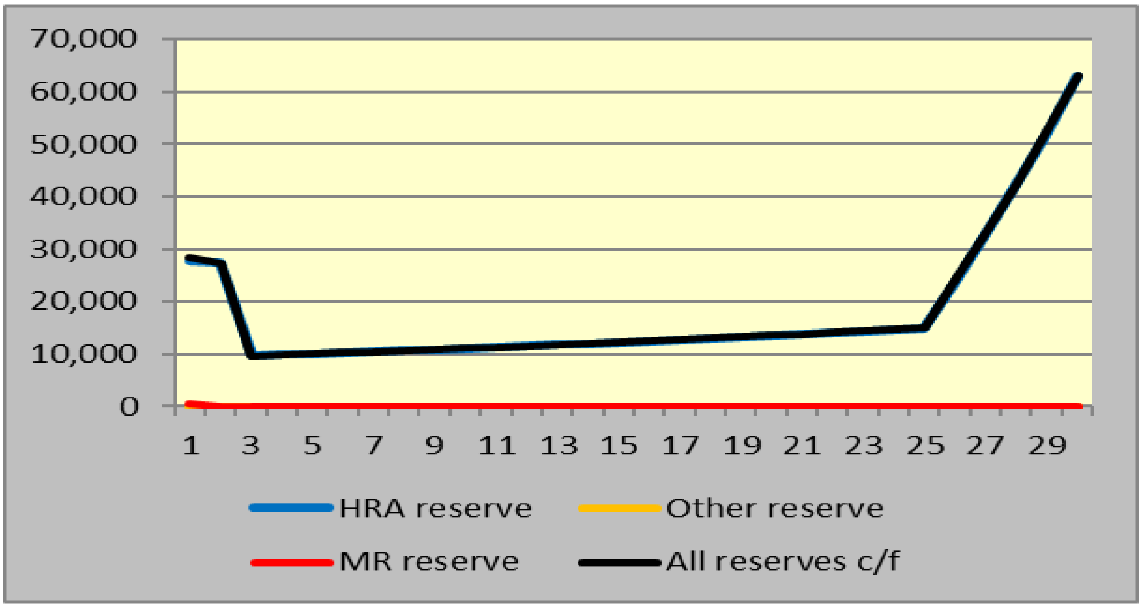
2.3. HRA Business Plans Projections

As a starting position for financial forecasting an agreed set of assumptions relating to inflation and interest rates are factored in. In addition, a minimum reserve position for the HRA is required and the existing level of £8.6 million has been applied.

Various methodologies can be applied for arriving at this:
- Equivalent to a period of gross expenditure. In the case of LBC £8.6million is equivalent to 1.9 months of expenditure, whereas elsewhere we have seen 1.5 months set as a basis
- A percentage of turnover is also adopted at other LAs and £8.6million equates to 9.8% whereas others we have worked with have set limits at 10%
- Finally a straightforward allowance per unit is used, which equates to £640 per unit whereas values closer to £700 per unit are modelled elsewhere.

Using the above benchmarks, the level of minimum balance modelled of £8.6million appears sufficient and will have CPI applied to it.
- Therefore, the graphs below will show the HRA, maintaining a minimum balance of £8.6million (inflated year on year) with the maximum level of resources available from the HRA utilised to either finance the capital programme and (if any remaining available) and to reserve balances.

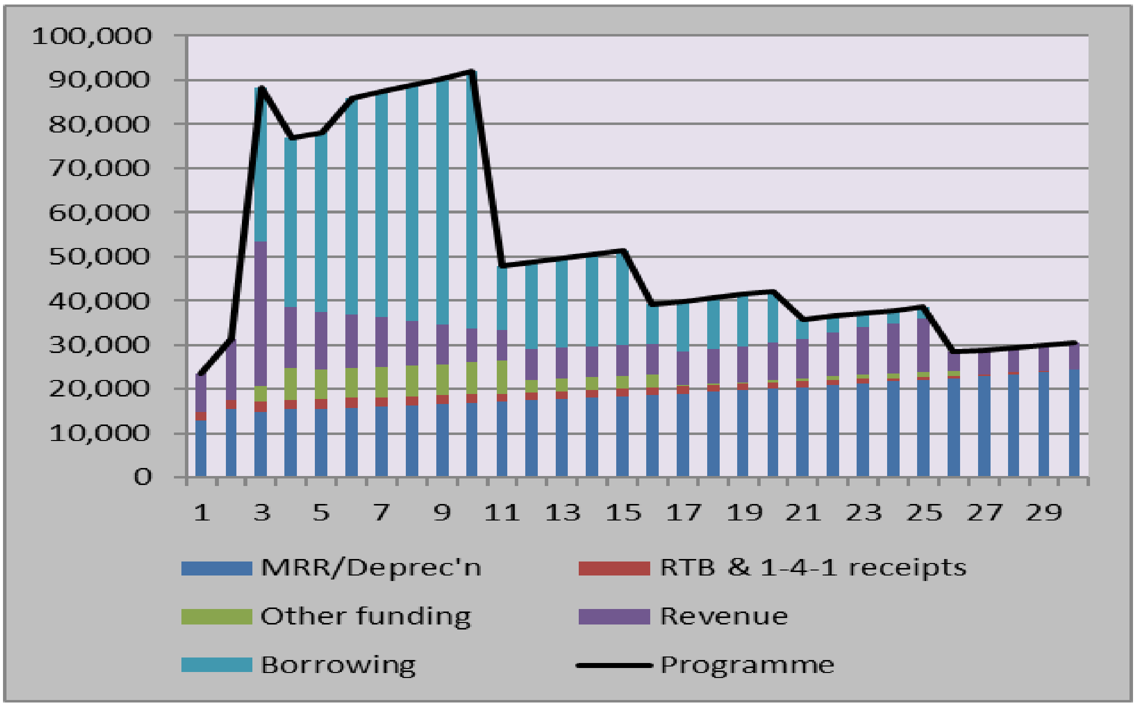
Chart 2.1 – Projected HRA balances



This demonstrates the plan can maintain the HRA balance at its minimum level for the duration of the plan. From year 26 onwards, on account of a reduction in the expenditure of the capital programme, balances begin to accrue in the plan to c£63.1million.

This is a lower future balance projection than previously projected on account to the operating costs and increased levels of investment in the stock.

Chart 2.2 – Projected capital expenditure and financing

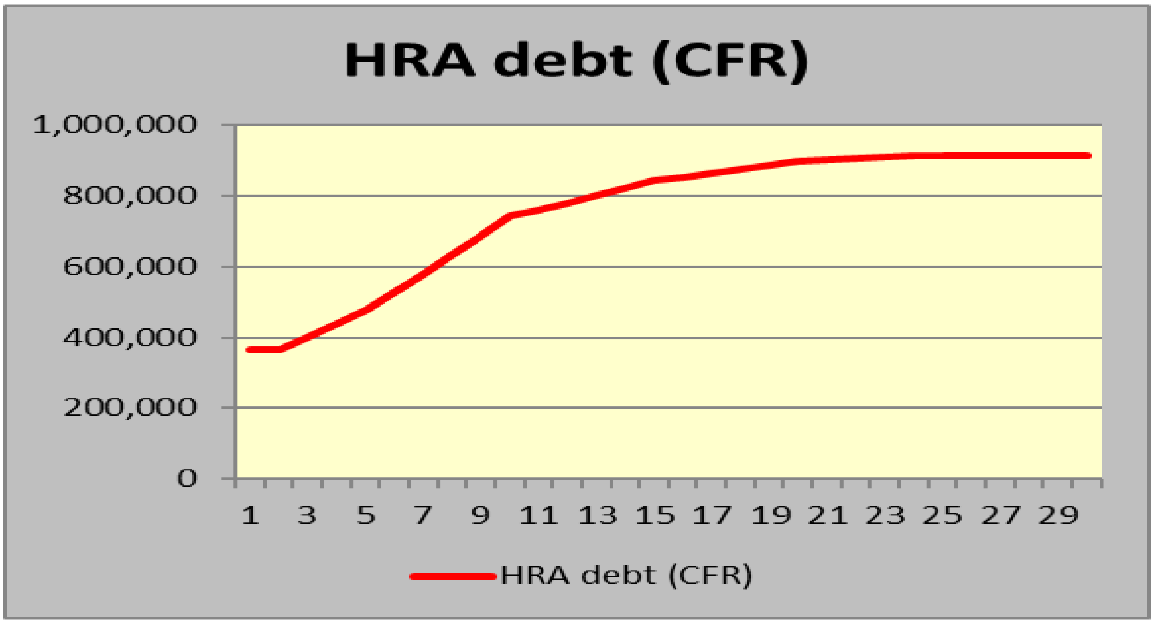


Capital expenditure remains fully funded throughout the 30 years demonstrated by the horizontal black line. From year 3 of the plan ,where the stock investment requirements data is modelled there is a significant increase in expenditure to meet the requirements of building safety works and energy efficiency improvements plus the additional provisions over and above the stock condition data.

In order to finance this, additional borrowing is required to fully fund this. As the asset management strategy is developed, and additional surveys are undertaken, the expenditure profile demonstrated above is most likely to change as well as expenditure levels, but the above provides for a sound basis in which to understand the business plan position as it stands.

Inflation has been included within the above projections.

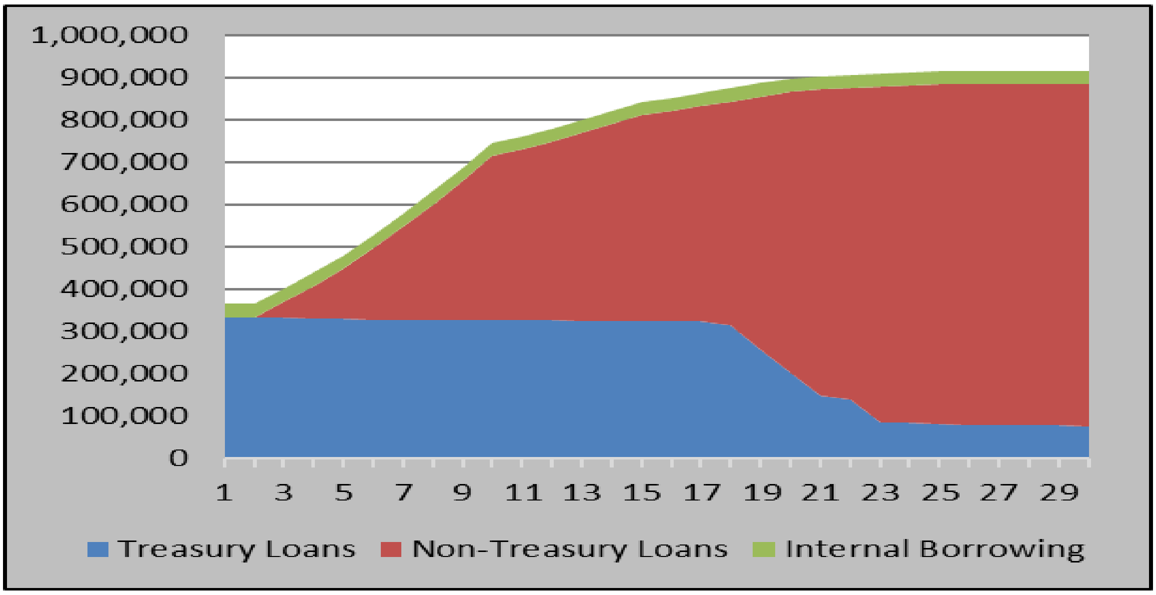
Chart 2.3 – Projected debt profile (HRACFR)



Borrowing is projected to peak in year 25 at £915.3million from an opening position of £365.5million.

All of the existing loan facilities that mature during the period of the plan are refinanced as demonstrated in the chart below.

Chart 2.4 – Projected Debt Analysis (HRACFR)



The blue shaded areas represent the existing loan portfolio that was allocated to the HRA in 2012 and any borrowing since then, whereas the red area represents a new pool of loans that are effectively a revolver type facility at an interest rate across all years at 3.2%, the exception of 3.6% in 2024.25.

2.4. Debt in Comparison to Provisional Prudential Limits

The HRA debt cap represented an artificial constraint on borrowing set outside the HRA and linked to future income and cost assumptions which were made in 2012. The housing and financial policy environment has moved on considerably since then, however the only change in the debt cap that has been implemented was for a small minority of authorities that opted to bid for an increase in 2014.15.

The proposition within this analysis is that, whilst there is theoretically now no limit to borrowing within the HRA, the existing asset and operating base generates a net income stream that does offer a logical limit on sustainable borrowing levels. In setting out its investment strategy, the council therefore needs to consider how it will take decisions on whether to invest, how to fund, the extent of new borrowing, and determine a framework within which decisions will be taken for the business plan overall, within the medium term financial strategy and within successive budget rounds.

This report applies some metrics developed in the light of the experience of 40 years' of successful private finance of housing associations, during which associations have developed hundreds of thousands of new affordable homes, without a single association ever going into default with any of its lenders.

This is not the only approach that can be utilised, for example the council will have an established approach to the setting of Prudential Indicators in the General Fund which it might wish to consider in the HRA context. However, as will be seen, looking at tried and tested principles from a privately financed sector in the HRA context provides a powerful and persuasive evidence base for a significant increase in funding for new HRA developments.

Housing associations have traditionally been funded from long-term bank lending from the High Street banks and Building Societies. There is over £55billion of debt on HA balance sheets. Bank lending has been built on lending covenants which have become established in the marketplace and associated with the delivery of cheap debt. Whilst local authority borrowing is not directly secured on its asset base, the covenant approach provides a key insight into the viability and sustainability of borrowing as viewed by private lenders.

We have identified three covenants/ratios or metrics which we consider potentially relevant in the HRA context, set out below.

Interest Cover Ratio (ICR)

This is the ratio of operating surplus divided by interest costs, and represents the cover that the HRA has against its interest cost liabilities in any year; the ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest. For housing associations, the usual definition of operating surplus is EBITDA (Earnings before Interest, Tax, Depreciation and Appropriations). The average ICR for the HA sector in 2021.22 was around 1.38; typical lending covenants vary between 1.10 and 1.50 depending on the size and nature of the HA, with 1.25 being a typical expectation.

For the HRA, this is best defined as:

- Turnover (dwelling rents, other rents, service charges, contributions)
- Less
- Operating Costs (general management, special management, other management, repairs & maintenance, major repairs)

For housing associations, depreciation is not a cash transaction. In the HRA, because of the treatment of depreciation as a cash transfer to the MRR plus or minus an adjustment to reflect actual transfers to MRR, it is essential to include the net amount transferred to MRR in the calculation. This represents the revenue expenditure on major repairs made legitimately as part of operating costs. Notwithstanding that these are subsequently treated as part of the capital programme, they are funded from revenue and property an operating cost. Whilst transfers to the MRR may not be spent in-year, our experience is that the majority of balances carried in the MRR tend to be from expenditure slippage.

The above definition of ICR works in the HRA context as it determines the revenue surplus before interest, appropriations, and other "below the line" adjustments.

Loan to Value (LTV)

This is an essential tool for private lenders where debt is secured against properties, hence theoretically against their value. The basis for valuation in HAs has been Existing Use Value (Social Housing) - EUV(SH) - for decades with many HAs and lenders now adopting Market Value Subject to Tenancy as a valuation. Typical covenants prescribe 65-70% maximum LTV.

For the HRA, borrowing is not directly secured against the properties. In addition, the EUV(SH) calculation prescribed by government is not cashflow based, but is based on vacant possession values discounted by a regional factor periodically published by the government.

LTV is best defined in the HRA context as Outstanding Debt / Fixed Asset Value. Debt is defined as the HRACFR as this is the amount that must be financed with interest payments in the HRA. Asset values include all assets, dwellings and non-dwellings, as all assets are included in the generation of net income cashflows in the HRA.

Whilst the LTV definition works for the HRA to an extent, the absence of a clear relationship between net rental income and asset values means that the ratio tends to deliver a "low" result, compared to HAs.

Debt to Turnover (LTV)

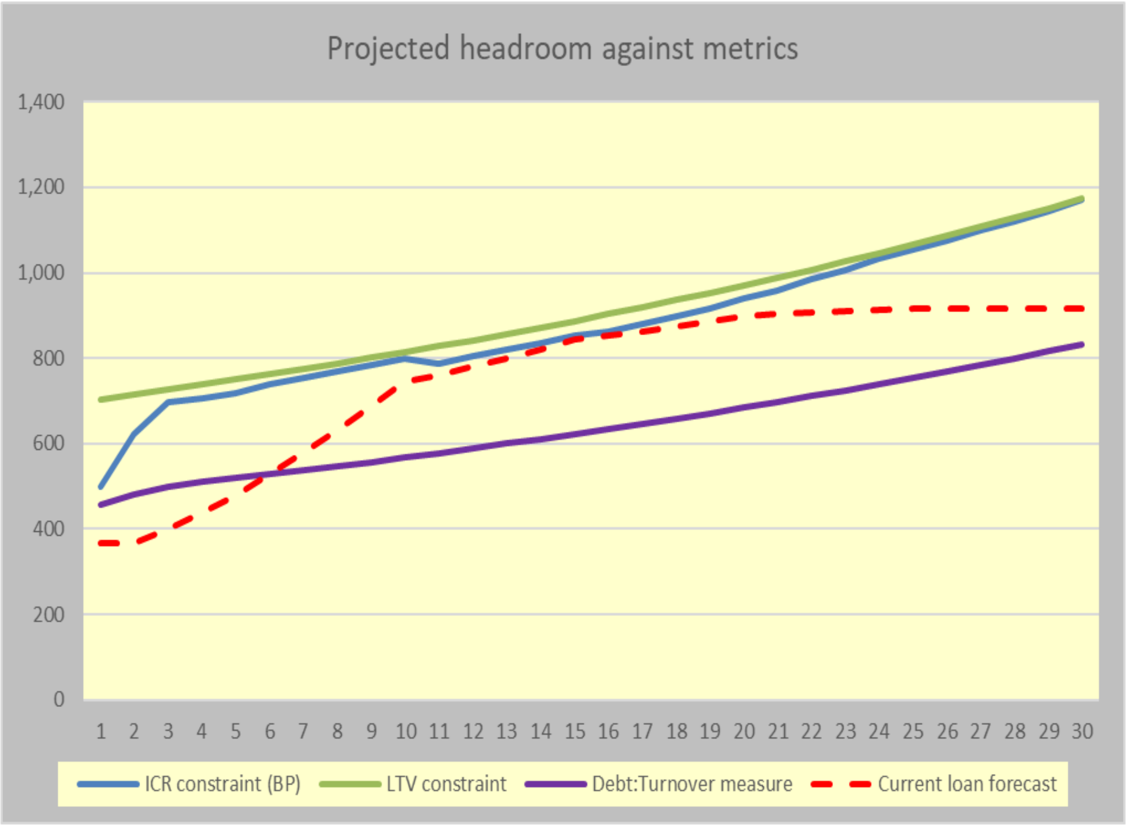
Another measure we have used for this analysis is the ratio of Debt to Turnover. This measure the level of turnover in relation to debt, which differs slightly from the ration used for assessing debtor balances against turnover. As a proxy we have suggested a ratio of 5:0, so that turnover can cover the level of debt outstanding by 5 times.

In the absence of an agreed prudential borrowing approach for the HRA we have suggested the following parameters:

ICR	@ minimum 1.25
LTV	@ maximum 65%
Debt:Turnover	@ maximum 5:0

Using these parameters we are able to established a suggested range of borrowing limits which could be applied a “golden-rule” as shown within the graph below.

Chart 2.5 – Projected Debt (HRACFR)Compared to Provisional Borrowing Limit



The red (dashed) line shows the projected loan balances, as per chart 2.3 set against the three “golden-rule” suggested metrics.

Using the Loan to Value metric, the plan suggests that there is scope for borrowing headroom which is measured by the gap between the green and red (dashed) line.

The Debt to Turnover ratio suggests that borrowing will exceed the “golden-rule” modelled, which is due in part, to rent increases restricted at CPI levels, but also the additional expenditure over and above the stock condition data without any additional income.

By default, the Interest Cover Ratio is considered the benchmark for assessing borrowing capacity and using the “golden-rule” as suggested, the projected borrowing in the main remains below this level. The lowest level of borrowing headroom is £9.6million in year 16 of the plan.

3. Sensitivity & Scenario Modelling

3.1. Sensitivity Modelling

We have modelled a range of scenarios that demonstrate the impact to the plan as per the table below.

Scenario £'m	HRA Bal Yr 30	Debt Yr 30	Minimum Headroom ICR (Year)	Borrowing Limit at Year 30
BASE	**63.096**	**915.327**	**9.559 (16)**	**1,170.373**
Inflation +0.5% pa	92.882	904.780	54.686 (11)	1,342.434
Inflation -0.5% pa	37.221	924.979	-40.686 (16)	1,019.710
Interest +0.25% pa	47.350	948.365	-38.518 (16)	1,092.191

Rents CPI +1% all years	477.302	750.779	134.183 (1)	2,291.580
Rent Freeze (Yr 3 – 2024.25)	16.470	1,071.576	-183.179 (20)	1,010.560
Capital Expenditure +5%	42.650	1,000.664	-38.714 (16)	1,167.608
Capital Expenditure -5%	86.859	834.143	54.509 (15)	1,173.559
Capital Expenditure Inf +1% 5 Years	42.921	995.841	-33.941 (16)	1,167.930
Repairs Expenditure Infl +1% 5 Years	46.410	959.640	-47.442 (16)	1,117,913
Right to Buys (Reduced by 50%)	73.905	918.551	32.163 (15)	1,234.383
Voids +0.5% Bad Debts +1%	38.010	987.590	-77.759 (16)	1,096.061

The plan shows a varied impact to both positive and negative sensitivities. Areas of concern will more around the residual debt that the HRA has at year 30, although there is no statutory requirement for repayment, and the reduction in borrowing headroom.

3.2. Scenario Modelling

The sensitivity table above demonstrates the impact to the plan for areas that will be primarily outside of the control of LBC.

As detailed earlier, an additional stock investment requirement has been modelled which identifies the potential cost of improving the stock to a zero-carbon standard, in conjunction with officers.

The table below details the expenditure in order to achieve this.

Table 3.1 – Stock Investment Requirements (Zero-Carbon Scenario)

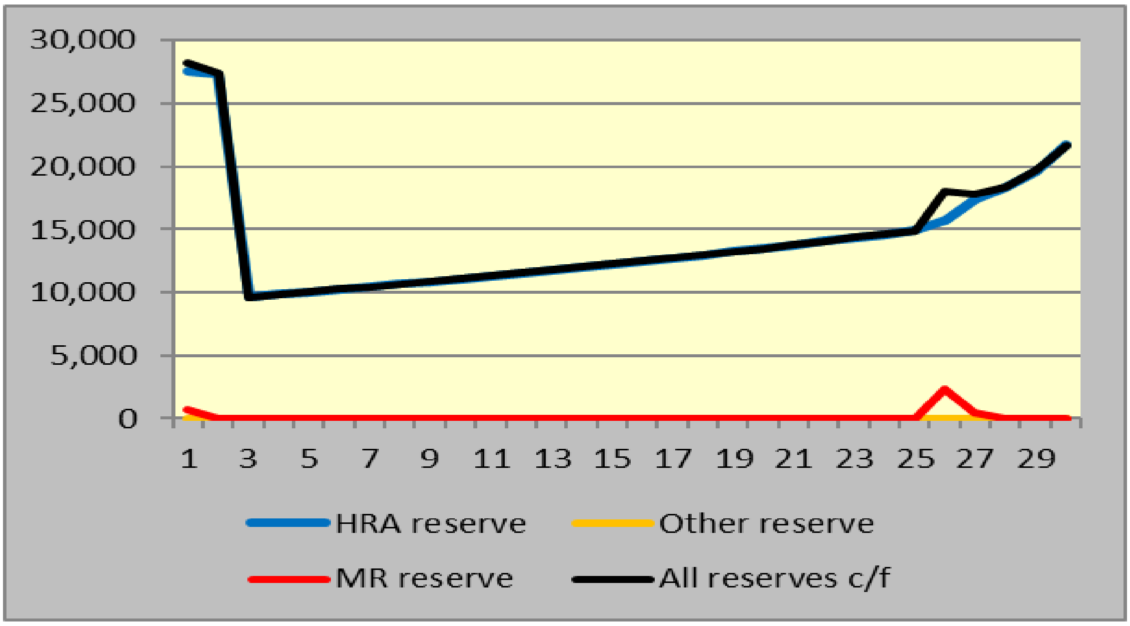
Element Group	Year 1	Years 2 to 3	Years 4 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Total
Catch Up Repairs	£972,438	£0	£0	£0	£0	£0	£0	£0	**£972,438**
Kitchens	£0	£2,050,000	£5,535,000	£32,800,000	£19,577,500	£7,892,500	£7,585,000	£32,800,000	**£108,240,000**
Bathrooms	£164,000	£246,000	£3,854,000	£6,724,000	£6,396,000	£24,518,000	£13,366,000	£3,936,000	**£59,204,000**
Electrics	£254,200	£305,450	£1,834,750	£6,849,050	£6,586,650	£24,294,550	£12,787,900	£14,659,550	**£67,572,100**
Heating	£0	£0	£0	£0	£0	£0	£0	£0	**£0**
Roofs	£0	£209,100	£7,032,525	£18,600,675	£11,062,825	£8,764,775	£17,881,125	£4,281,425	**£67,832,450**
Walls	£0	£0	£926,600	£0	£0	£0	£0	£0	**£926,600**
Windows and Doors	£71,750	£597,575	£5,207,000	£0	£0	£0	£0	£0	**£5,876,325**
External Areas	£76,875	£47,663	£5,734,363	£15,123,875	£4,485,400	£4,620,188	£1,088,550	£656,513	**£31,833,425**
Communal Areas	£0	£133,250	£1,486,250	£7,185,250	£2,091,000	£1,045,500	£399,750	£379,250	**£12,720,250**
Total Programmed Renewals	**£1,539,263**	**£3,589,038**	**£31,610,488**	**£87,282,850**	**£50,199,375**	**£71,135,513**	**£53,108,325**	**£56,712,738**	**£355,177,588**
Contingency 10%	£153,926	£358,904	£3,161,049	£8,728,285	£5,019,938	£7,113,551	£5,310,833	£5,671,274	**£35,517,759**
Environmental Works	£1,334,200	£2,668,400	£2,668,400	£6,671,000					**£13,342,000**
Building Safety Works	£7,600,000	£15,200,000	£15,200,000						**£38,000,000**
Block M&E	£5,000,000	£10,000,000	£10,000,000	£25,000,000					**£50,000,000**
Structural Works	£1,300,000	£2,600,000	£2,600,000	£6,500,000					**£13,000,000**
Zero Carbon	£20,800,000	£41,600,000	£41,600,000	£115,000,000	£115,000,000	£115,000,000	£115,000,000		**£564,000,000**
TOTAL EXPENDITURE	**£37,727,389**	**£76,016,341**	**£106,839,936**	**£249,182,135**	**£170,219,313**	**£193,249,064**	**£173,419,158**	**£62,384,011**	**£1,069,037,347**

Investment over the 30-year plan increases to £1.069billion, an increase of 24.1% coupled with a change in profile of expenditure.

The assumptions in respect of the £50million addition provision and works to LPS blocks totalling £183.6million remain within the plan.

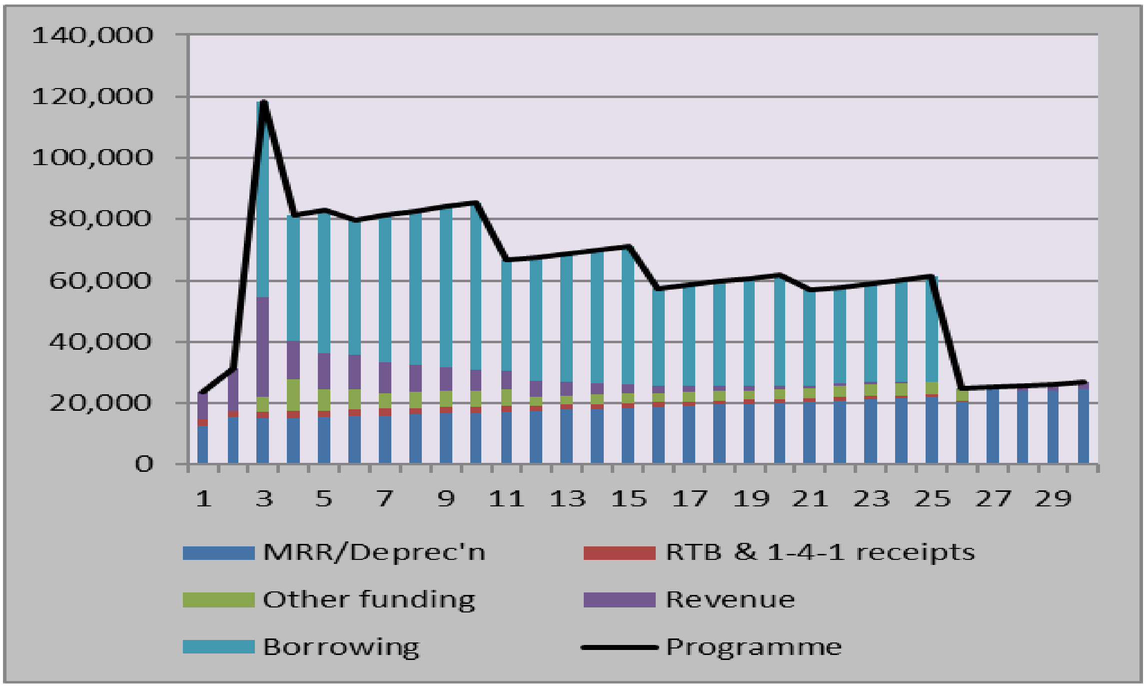
We have modelled the results of applying this level of investment to the plan

Chart 3.1 – Projected HRA balances (Zero-Carbon Scenario)



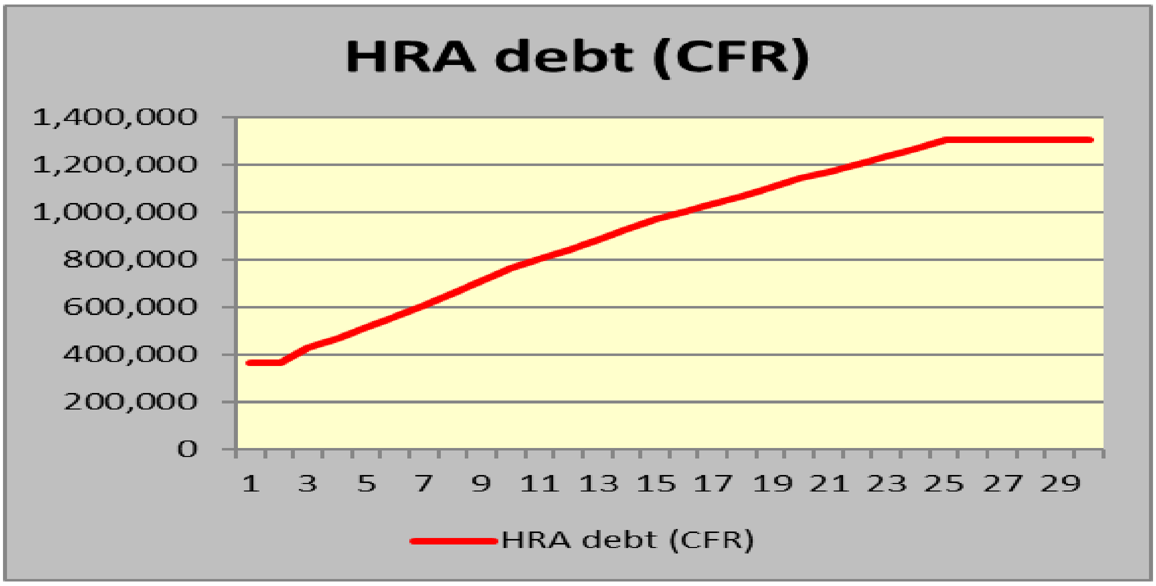
The HRA is able to maintain its minimum balance for the long-term with a gradual increase from year 26 to £21.7million.

Chart 3.2 – Projected capital expenditure and financing (Zero-Carbon Scenario)



This chart demonstrates the changes and levels of capital investment requirement with this scenario, and that additional borrowing is required in almost all years in order to finance the expenditure.

Chart 3.3 – Projected debt profile (HRACFR) (Zero-Carbon Scenario)



This chart demonstrates that the need to continually borrow until year 25, where the level of debt peaks at £1.305billion.

It should be noted that within this scenario we have not modelled any form of subsidy towards the expenditure in order to meet zero carbon.

4. Summary

1. The HRA business plan forecast as set out in our modelling for the London Borough of Croydon shows the current projected financial position and future potential borrowing capacity.

2. The plan provides a basis on which to move forward with its investment plans, and provides some additional provision in respect of works outside of the stock condition survey.

3. The Council is able to increase borrowing immediately based on existing capacity within the business plan if using the ICR metric based on a minimum of 1.25.

4. The plan, whilst balanced in terms of maintain minimum levels of reserves, does require substantial borrowing in order to finance the identified capital investment, which may be offset with the possibility of external grant funding towards energy efficiency measures.

5. When compared to previous iterations of the business plan there are have been significant factors that have resulted in lower projected balances and greater borrowing levels including:

    a. Capital Investment requirements increasing by over 30 years by £214million (prior to inflation), equivalent to 30.3% and additional provision for works to LPS blocks above this.
    b. Substantial increases to the costs of repairs due to inflation and enhanced costs for compliance
    c. Rent increases lower than levels of cost inflation

6. By substantially increasing the investment in existing stock, for example to assist with meeting the de-carbon agenda, would result in an unviable business plan albeit without external subsidy towards the cost of achieving this.

7. The Council can affect future operating surpluses through effective cost management and this would increase borrowing capacity. Similarly, increases in inflation and in particular in rent inflation would add significantly to future capacity.

8. This report should provide a basis for the Council to inform its future approach to establishing a decision making framework for its HRA investment and development strategies, and also inform the work to be undertaken to adopt Prudential Indicators for the HRA. However, this needs to be considered in the context of LBC's treasury management strategy.

Steve Partridge & Simon Smith
Savills
January 2023

5. Appendix 1 Key Assumptions

	Assumption	Notes
Dwelling Rent	7% Increase 2023.24 then CPI + 1% Increase in 2024.25 and CPI only thereafter	
Void rates	1.66%	
Service Charges	CPI + 1% in 2024.25 and CPI increases from 2025.26	Full service charge review to be carried out
Non dwelling rents	CPI only increases after adjustments to base budget	
Garage Rents	CPI only increases after adjustments to base budget	Review of long term void garages required with demolitions and infills decisions
Major Works Leaseholder Contributions	Linked to Capital Programme	
Repairs and Maintenance Costs	Above CPI increases in initial years (1.8%, 1.15% 0.5%) then CPI only	
Heating and hot water charges	CPI only increases	

Interest rate on borrowings	Based on Existing actual rates c3.28% then average of 3.2%	
Depreciation	Straight Line Basis over life of Assets	

6. Appendix 2 Benchmarks

Outer-London Benchmarks for Financial Year 2021.22

Metric	**Croydon 2021.22**	**Outer London 2021.22 Average**
Rented Properties	13,623	9,252
Gross Management per unit	£2,850	£2,682
Net Management (less service charges) per unit	£2,408	£1,908
Repairs per unit	£986	£1,191
Gross Management and Repairs per unit	£3,836	£3,873
Depreciation per unit	£990	£1,241
Average Rent (52 week basis)	£112.13	£110.53
Other (non-Service Charge) Income per unit	£271	£179
Operating Surplus per unit	£1,753	£1,273
Operating Margin	26.4%	19.5%
Debt per unit	£26,835	£20,465
Interest per unit	£890	£539
Interest Rate	3.32%	4.01%
Reserves per unit	£452	£1,619

7. Appendix 3 Rental Income Budget

Table 1 Social Rents p/w 2022-23

Bedroom Size	Average rent 2022-23 - £ p/w	Average rent 2022-23 with Increase - £ p/w	Increase - £ p/w
0 Bedsit	80.27	85.89	5.62
1	96.70	103.47	6.77
2	115.42	123.50	8.08
3	133.02	142.33	9.31

Table 2 Summary of Housing Rent Budgets for 2022-23

Type of Rent /Charge	Rents for 2023.24 with 7% Increase	Rents for 2023.24	Additional Income
Housing Dwelling Rents	£82,369,741	£77,266,663	£5,103,078
Housing Service Charge	£4,626,680	£4,324,000	£302,680
Parking Space Rents	£38,367	£38,367	£-
Garage Rents	£968,754	£1,241,000	-£272,246
Heating Charges	£555,008	£512,000	£43,008
	£88,558,550	**£83,382,030**	**£5,176,520**

8. Appendix 4 Capital Programme

Capital Programme	2023.24
Adaptations	£1,000,000
Building Safety	£3,750,000
Environmental work	£450,000
M&E	£4,495,000
Net Zero	£1,100,000
Programmed Renewals	£8,040,941
Projects	£1,550,000
Regeneration	£1,750,000
Repairs referals	£2,350,000
Staffing Costs	£2,200,000
Surveys and data collection	£1,000,000
EI referals	£2,000,000
Cyclical Maintenance	£1,790,000
Total	**£31,475,941**

9. Appendix 5 Financial Tables

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Financial Year	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33	2033.34	2034.35	2035.36	2036.37
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
HRA 30 YEAR SUMMARY															
Dwelling rents	80,110	85,422	88,581	90,590	92,188	93,816	95,482	97,187	98,933	100,720	102,551	104,426	106,347	108,315	110,332
Non-dwelling rents	1,276	1,007	1,037	1,063	1,084	1,106	1,128	1,150	1,173	1,197	1,221	1,245	1,270	1,296	1,321
Service charge income	6,339	6,679	6,946	7,120	7,262	7,407	7,555	7,707	7,861	8,018	8,178	8,342	8,509	8,679	8,852
Other income and contributions	3,533	2,977	3,067	3,143	3,206	3,270	3,336	3,403	3,471	3,540	3,611	3,683	3,757	3,832	3,908
Total income	**91,258**	**96,085**	**99,631**	**101,916**	**103,740**	**105,599**	**107,501**	**109,447**	**111,438**	**113,475**	**115,561**	**117,696**	**119,882**	**122,121**	**124,414**
Repairs & maintenance	18,963	23,463	24,373	25,089	25,590	26,015	26,450	26,896	27,353	27,821	28,301	28,793	29,297	29,814	30,345
Management (incl RRT)	36,819	31,004	31,934	32,732	33,387	34,055	34,736	35,431	36,139	36,862	37,599	38,351	39,118	39,901	40,699
Bad debts	750	750	778	795	809	823	838	853	868	884	899	916	933	950	967
Depreciation	13,488	14,729	14,999	15,313	15,559	15,810	16,070	16,337	16,610	16,891	17,178	17,474	17,776	18,087	18,406
Debt management	51	162	166	171	174	177	181	185	188	192	196	200	204	208	212
Total costs	**70,071**	**70,107**	**72,250**	**74,101**	**75,519**	**76,880**	**78,275**	**79,700**	**81,158**	**82,649**	**84,174**	**85,733**	**87,328**	**88,959**	**90,629**
Net income from services	**21,187**	**25,978**	**27,382**	**27,816**	**28,222**	**28,719**	**29,226**	**29,746**	**30,279**	**30,826**	**31,387**	**31,963**	**32,554**	**33,162**	**33,786**
Interest payable	-12,398	-12,231	-12,359	-13,574	-14,812	-16,168	-17,739	-19,402	-21,139	-22,953	-24,256	-24,770	-25,388	-26,044	-26,717
Interest income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income/expenditure before appropriations	**8,789**	**13,747**	**15,022**	**14,242**	**13,409**	**12,551**	**11,488**	**10,345**	**9,141**	**7,874**	**7,131**	**7,193**	**7,166**	**7,118**	**7,069**
Set aside for debt repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue contributions to capital	-8,789	-13,962	-32,805	-14,002	-13,213	-12,350	-11,283	-10,136	-8,928	-7,656	-6,910	-6,967	-6,935	-6,883	-6,829
Net HRA Surplus/Deficit	**0**	**-215**	**-17,783**	**240**	**197**	**201**	**205**	**209**	**213**	**217**	**222**	**226**	**231**	**235**	**240**
HRA Balance brought forward	**27,600**	**27,600**	**27,385**	**9,602**	**9,842**	**10,039**	**10,240**	**10,445**	**10,653**	**10,866**	**11,084**	**11,306**	**11,532**	**11,762**	**11,997**
HRA surplus/(deficit)	0	-215	-17,783	240	197	201	205	209	213	217	222	226	231	235	240
HRA Balance carried forward	**27,600**	**27,385**	**9,602**	**9,842**	**10,039**	**10,240**	**10,445**	**10,653**	**10,866**	**11,084**	**11,306**	**11,532**	**11,762**	**11,997**	**12,237**
HRA CAPITAL PROGRAMME															
Stock capital investment	23,708	31,476	88,178	76,807	78,085	85,927	87,372	88,852	90,369	91,923	47,931	48,771	49,632	50,515	51,420
Development/acquisition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital programme	**23,708**	**31,476**	**88,178**	**76,807**	**78,085**	**85,927**	**87,372**	**88,852**	**90,369**	**91,923**	**47,931**	**48,771**	**49,632**	**50,515**	**51,420**
Scheduled Loan Repayment	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financed by...															
Major Repairs Reserve	-12,821	-15,395	-14,999	-15,313	-15,559	-15,810	-16,070	-16,337	-16,610	-16,891	-17,178	-17,474	-17,776	-18,087	-18,406
1-4-1 receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other receipts and grants	0	0	-3,541	-7,320	-6,613	-6,745	-6,855	-6,992	-7,132	-7,275	-7,420	-2,846	-2,902	-2,961	-3,020
Revenue contributions	-8,789	-13,962	-32,805	-14,002	-13,213	-12,350	-11,283	-10,136	-8,928	-7,656	-6,910	-6,967	-6,935	-6,883	-6,829
HRA borrowing	0	0	-34,694	-38,012	-40,519	-48,873	-51,051	-53,329	-55,702	-58,169	-14,548	-19,673	-20,270	-20,902	-21,548
Capital financing	**-23,708**	**-31,476**	**-88,178**	**-76,807**	**-78,085**	**-85,927**	**-87,372**	**-88,852**	**-90,369**	**-91,923**	**-47,931**	**-48,771**	**-49,632**	**-50,515**	**-51,420**
Net balance on capital programme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Year	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Financial Year	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44	2044.45	2045.46	2046.47	2047.48	2048.49	2049.50	2050.51	2051.52
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
HRA 30 YEAR SUMMARY															
Dwelling rents	112,399	114,519	116,692	118,920	121,206	123,550	125,955	128,422	130,955	133,553	136,221	138,960	141,772	144,659	147,624
Non-dwelling rents	1,348	1,375	1,402	1,430	1,459	1,488	1,518	1,548	1,579	1,611	1,643	1,676	1,709	1,744	1,779
Service charge income	9,029	9,210	9,394	9,582	9,774	9,969	10,169	10,372	10,579	10,791	11,007	11,227	11,452	11,681	11,914
Other income and contributions	3,987	4,066	4,148	4,231	4,315	4,402	4,490	4,579	4,671	4,764	4,860	4,957	5,056	5,157	5,260
Total income	**126,763**	**129,170**	**131,636**	**134,164**	**136,754**	**139,409**	**142,131**	**144,922**	**147,784**	**150,720**	**153,731**	**156,820**	**159,989**	**163,241**	**166,577**
Repairs & maintenance	30,889	31,447	32,019	32,607	33,210	33,828	34,464	35,115	35,785	36,472	37,178	37,902	38,647	39,411	40,197
Management (incl RRT)	41,513	42,343	43,190	44,053	44,935	45,833	46,750	47,685	48,639	49,611	50,604	51,616	52,648	53,701	54,775
Bad debts	985	1,004	1,023	1,042	1,062	1,083	1,104	1,126	1,148	1,171	1,194	1,218	1,243	1,268	1,294
Depreciation	18,733	19,069	19,414	19,769	20,133	20,506	20,890	21,284	21,690	22,106	22,534	22,974	23,426	23,891	24,368
Debt management	216	221	225	229	234	239	244	248	253	258	264	269	274	280	285
Total costs	**92,336**	**94,084**	**95,871**	**97,701**	**99,573**	**101,490**	**103,451**	**105,459**	**107,514**	**109,618**	**111,773**	**113,979**	**116,237**	**118,550**	**120,919**
Net income from services	**34,427**	**35,087**	**35,765**	**36,463**	**37,180**	**37,919**	**38,680**	**39,463**	**40,270**	**41,101**	**41,958**	**42,841**	**43,751**	**44,690**	**45,658**
Interest payable	-27,234	-27,554	-27,906	-28,226	-28,441	-28,557	-28,428	-28,531	-28,451	-28,535	-28,573	-28,567	-28,567	-28,567	-28,567
Interest income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income/expenditure before appropriations	**7,193**	**7,533**	**7,859**	**8,237**	**8,739**	**9,363**	**10,251**	**10,933**	**11,819**	**12,566**	**13,385**	**14,274**	**15,185**	**16,123**	**17,091**
Set aside for debt repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue contributions to capital	-6,948	-7,283	-7,604	-7,977	-8,475	-9,092	-9,976	-10,651	-11,532	-12,274	-4,293	-5,498	-5,758	-6,026	-6,303
Net HRA Surplus/Deficit	**245**	**250**	**255**	**260**	**265**	**270**	**276**	**281**	**287**	**292**	**9,091**	**8,776**	**9,426**	**10,097**	**10,788**
HRA Balance brought forward	**12,237**	**12,482**	**12,732**	**12,986**	**13,246**	**13,511**	**13,781**	**14,057**	**14,338**	**14,625**	**14,917**	**24,009**	**32,785**	**42,211**	**52,308**
HRA surplus/(deficit)	245	250	255	260	265	270	276	281	287	292	9,091	8,776	9,426	10,097	10,788
HRA Balance carried forward	**12,482**	**12,732**	**12,986**	**13,246**	**13,511**	**13,781**	**14,057**	**14,338**	**14,625**	**14,917**	**24,009**	**32,785**	**42,211**	**52,308**	**63,096**
HRA CAPITAL PROGRAMME															
Stock capital investment	39,229	39,943	40,676	41,427	42,198	35,817	36,493	37,187	37,899	38,630	28,364	28,919	29,488	30,072	30,672
Development/acquisition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital programme	**39,229**	**39,943**	**40,676**	**41,427**	**42,198**	**35,817**	**36,493**	**37,187**	**37,899**	**38,630**	**28,364**	**28,919**	**29,488**	**30,072**	**30,672**
Scheduled Loan Repayment	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financed by...															
Major Repairs Reserve	-18,733	-19,069	-19,414	-19,769	-20,133	-20,506	-20,890	-21,284	-21,690	-22,106	-22,534	-22,974	-23,426	-23,891	-24,368
1-4-1 receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other receipts and grants	-3,080	-542	-553	-564	-576	-587	-880	-898	-916	-934	-953	0	0	0	0
Revenue contributions	-6,948	-7,283	-7,604	-7,977	-8,475	-9,092	-9,976	-10,651	-11,532	-12,274	-4,293	-5,498	-5,758	-6,026	-6,303
HRA borrowing	-8,917	-11,566	-11,691	-11,774	-11,744	-4,433	-3,623	-3,275	-2,920	-2,600	0	0	0	0	0
Capital financing	**-39,229**	**-39,943**	**-40,676**	**-41,427**	**-42,198**	**-35,817**	**-36,493**	**-37,187**	**-37,899**	**-38,630**	**-28,364**	**-28,919**	**-29,488**	**-30,072**	**-30,672**
Net balance on capital programme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

10. Appendix 6 Tenancy Service Measures

Measured by Landlords Directly		Combined	TP – Measured by doing Tenant Surveys
Repairs Completed in timescales	Keeping Properties in good repair	Overall Satisfaction	Satisfaction with repairs
Fire Safety Checks	Maintaining Building Safety	Satisfaction with time taken to complete most repairs	Satisfaction that the home is well maintained
Water Safety Checks	Respectful and Helpful Engagement	Satisfaction that the landlord listens to tenants view and acts upon them	Satisfaction that the landlord keeps tenants informed about things that matter to them
Complaints relative to the size of the landlord	Effective handling of complaints	Agreement that the landlord treats tenants fairly and with respect	Satisfaction with the landlords approach to handling complaints
Anti-social behaviour cases relative to the size of the landlord	Responsible neighbourhood management	Satisfaction that the landlord keeps communal areas clean and well maintained	Satisfaction that the landlord makes a positive contribution to neighbourhoods
		Satisfaction with the landlord's approach to handling anti-social behaviour	