

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>CABINET</b>	
<b>DATE OF DECISION</b>	<b>22 February 2023</b>	
<b>REPORT TITLE:</b>	<b>HRA Business Plan &amp; Budget Update report January 2023</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Susmita Sen, Corporate Director Housing</b>	
<b>LEAD OFFICER:</b>	<b>Orlagh Guarnori, Head of Finance for Housing</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]		<b>Yes</b>
<b>CONTAINS EXEMPT INFORMATION?</b>		<b>No</b>
<b>WARDS AFFECTED:</b>		<b>All</b>

## 1 SUMMARY OF REPORT

- 1.1 This report presents the latest position for the 30 Year Business Plan for the Housing Revenue Account with consideration to both capital and revenue investments required for the management and maintenance of Croydon Council’s housing stock.
- 1.2 The plan contains the most up to date information in terms of stock investment and will form the basis for the development of a new asset management strategy, building upon the recent initial stock condition survey work carried out, that will be extended following the commission of extending the sample basis.
- 1.3 The Business Plan demonstrates that the investment proposals are fundable, subject to the assumptions within the plan, and that the HRA remains sustainable and viable over the 30 year period.

## 2 RECOMMENDATIONS

For the reasons set out in the report and its appendices, the Executive Mayor in Cabinet, is recommended:

- 2.1 to approve the HRA budget for 2023-24

- 2.2 to note the update to the HRA 30 year Business plan based on the HRA budget for 2023-24
- 2.3 to note the assumptions the business plan is based upon and the risks associated with these assumptions
- 2.4 to note the commencement of the work on a new asset management strategy and enhanced stock condition survey that will further inform the business plan
- 2.5 to approve an application to the Secretary of State for a direction permitting the funding by the HRA of Discretionary Housing Payments from an HRA Hardship Fund, and to authorise the Corporate Director, Housing to agree the terms of such a direction with DLUHC.

### **3 REASONS FOR RECOMMENDATIONS**

- 3.1 The Housing Revenue Account (HRA) 30 year business plan sets out the long term financial position of this ring-fenced general fund account. Whilst the HRA business plan is for a period of 30 years, more focus is on the medium-term, first five years, as there is more certainty on costs, demands, resources and pressures, which will enable the prioritisation of housing investment. The current iteration of the plan is the annual update reflecting the revised 2023-24 budget attached in Appendix A.
- 3.2 The business plan also considers the strategic objectives of the Council and the impact of Government policies on rents, disposals and regeneration. The Plan is constantly evolving and the impact of changes in legislation and council priorities will be factored into future iterations. The current plan is based on the capital programme as set out in Appendix B.
- 3.3 The key elements of the HRA financial operations are set out below and are brought together within the plan. The plan will be used as a tool to assess the impact of decision making around stock acquisition and maintenance, long-term treasury management strategy and wider strategic options of the Council.
- 3.4 In year one there is no requirement to borrow however the intention is to be able to draw down from a pre-determined borrowing capacity in order to fund regeneration and other works from 2024/25 onwards. Any borrowing will be carried out in accordance with the Council's Treasury Management Strategy.
- 3.5 The intention is for a further update to be made to the HRA business plan later in the financial year reflecting the outcome of the stock conditions surveys.
- 3.6 Savills have supported officers with producing the HRA Business Plan and have written a commentary report that see Appendix C to provide greater detail as to the assumptions and forecasts within the plan

### **4 BACKGROUND AND DETAILS**

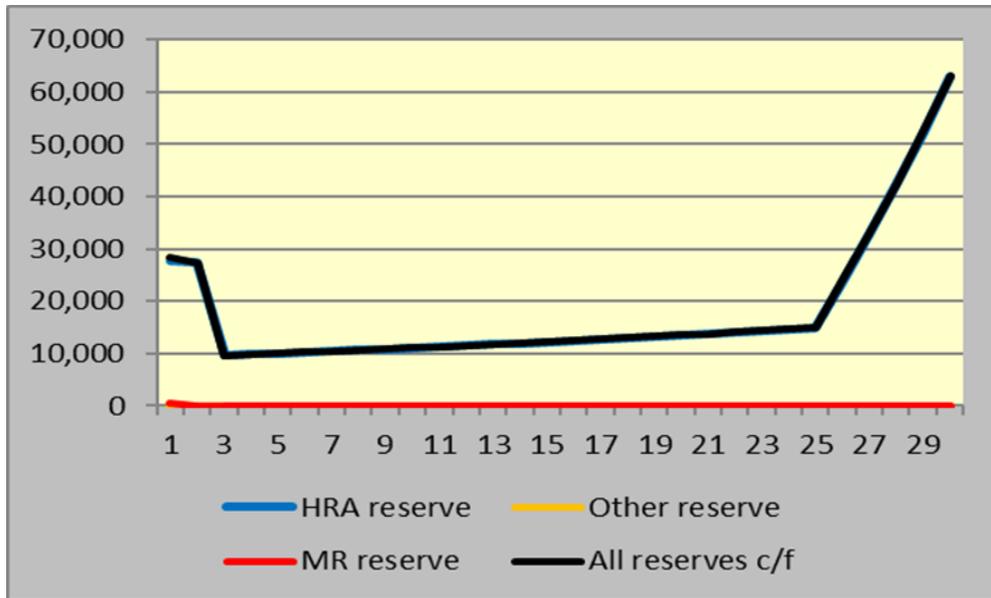
- 4.1** The HRA accounts for revenue expenditure and income relating to the Council's own housing stock and is ring fenced from the Council's General Fund as required by the Local Government and Housing Act 1989, which specifies the items that can be charged and credited to it. The account must include all costs and income relating to the Council's landlord role (except in respect of leased accommodation, for households owed a homeless duty, and in respect of accommodation provided other than under Housing Act powers). The Council has a legal duty to budget to ensure the account remains solvent and to review the account throughout the year.
- 4.2** In 2012 HRA legislation changes resulted in the abolition of the Subsidy System (Croydon was a net payer to central government) and the implementation of a self-financing settlement. As a result, in March 2012 Croydon's HRA borrowed £223.126m from the Public Works Loan Board (PWLB). This was paid to the Government as Croydon's share of the self-financing settlement which involved the redistribution of national housing debt in return for the end of the housing subsidy system. In subsequent years additional property acquisitions have been made within the HRA. HRA Capital Financing Requirement (CFR) stands at £365.4m consisting of 40 fixed PWLB loans totalling £334.3m.
- 4.3** The HRA has a 30 year business plan that is currently balanced and has been updated to reflect the impact of the latest rent setting proposals as well as other agreed increases in expenditure. The report includes financial analysis to demonstrate the viability and sustainability of the business plan.
- 4.4** The proposed HRA budget for 2023/24 is based on total income of £96.1m, and is set out in Appendix A. The movement between the approved 2022/23 budget and the proposed 2023/24 budget is summarised in Table 1
- 4.5** Officers will submit an application to the secretary of state to apply for a direction to establish a HRA hardship fund specifically for our tenants to assist those that have been financially impacted by the 2023/24 rent increase.

Table 1 Summary of HRA Budget Changes 2022/23 to 2023/24

<b>HRA INCOME</b>	<b>£m</b>
Rent	5.312
Charges to other services	-0.464
<b>Total Income increase</b>	<b>4.848</b>
<b>HRA EXPENDITURE</b>	
Budget growth	4.687
Increase in utilities	2.288
Decrease in HRA central recharges	-8.237
Other savings within central services	-0.242
Increase in depreciation	1.363
<b>Total Expenditure Increase</b>	<b>-0.141</b>
Revenue Contribution to Capital	5.253
	<b>5.141</b>

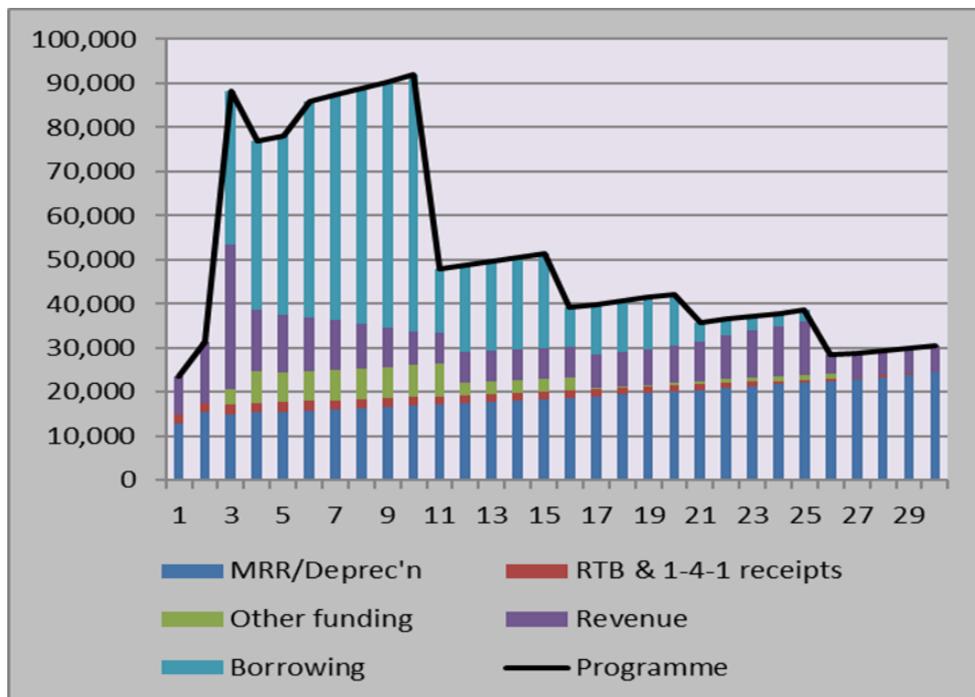
**4.6** The business plan demonstrates that the HRA is financially viable. Reserves balances do not fall below the pre-set minimum of balance of £8.6m in year 1 thereafter are increased by inflation. Figure 1 shows reserves being maintained with a projected increase from year 26 onwards as it is assumed the capital programme is fully funded and contributions to reserves increase to £63m.

Figure 1 –Maintaining minimum reserves



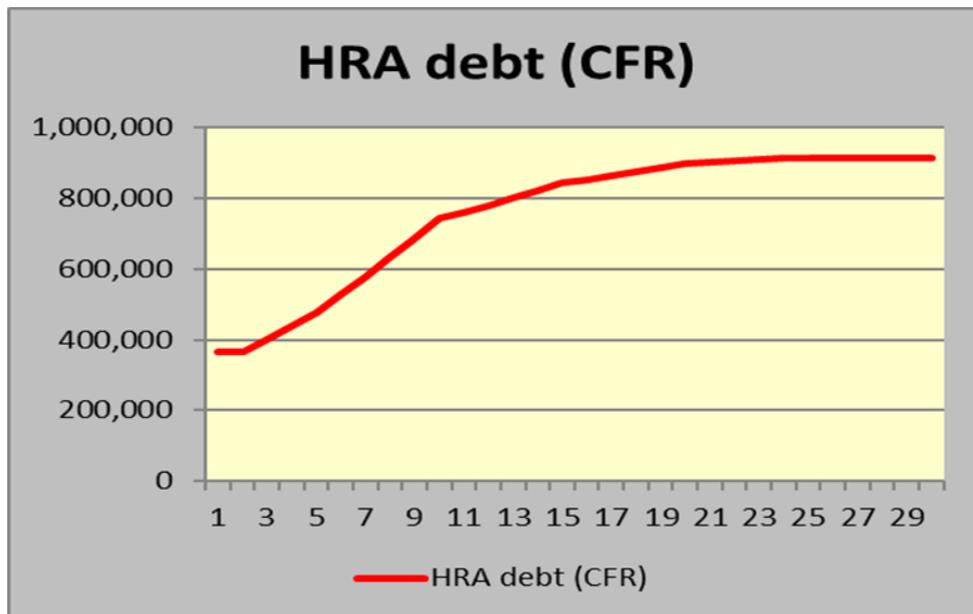
**4.7** The projected capital expenditure, exclusive of any new developments, acquisitions or estate regeneration is funded without borrowing, up to year 2 as shown in figure 2.

Figure 2 Financing of capital expenditure



**4.8** The HRA CFR (Capital Finance Requirement) is made up of the external borrowing as well as the funding of the capital programme through the use of HRA reserves. Figure 3 sets out the opening CFR of £365m rising to £915m over the period of the plan.

Figure 3 HRA CFR



**4.9** Compared to previous iterations of the plan the current position reflects lower reserve balances coupled with a higher residual debt. A number of factors explain the reasons for this:

- A new 5% sample stock conditions survey that has informed the latest capital expenditure profile
- The capital programme includes works to improve the energy efficiency of properties and building safety works
- Increased repairs costs due to higher inflation and increased compliance requirements
- Increased utility costs, that are unrecovered from service charges in the 2022-23
- Higher levels of general inflation on costs

**4.10** The plan is based on a number of assumptions as detailed in Appendix C, including a rent increase of 7% and a base inflation rate of 8.4% for April 2023

**4.11** The plan will evolve over the coming year as the new asset management strategy is developed, based on an enhanced sample stock condition survey and as the Council's estate regeneration plans are identified.

#### Business Plan - Capital Programme

**4.12** We are developing a full asset management strategy this forms part of the housing transformation plan it will detail our long-term plan for the management of the investment of our Council housing assets, as part of a ten-year rolling programme.

**4.13** The 2023-24 capital programme set out in Appendix B\_ and summarised in table 2 supports the development of the asset management strategy aims of meeting :

- 1) The manifesto promise to turn around and provide a housing service which we can be proud of - which provides warm, dry and safe homes for residents to live in. for residents to be proud of where they live in Croydon
- 2) The business plan priority to Develop an asset management strategy to invest in our council homes, modernise and bring them up to a standard fit for 21st century with outcomes designed to ensure Croydon is a cleaner, safer and healthier place, a borough we are proud to call home and invest in council homes to drive up standards and develop a more responsive and effective housing service.
- 3) The climate change and ecological emergency declared in 2019 and ensures
- 4) Consumer standards are met
- 5) Landlord responsibilities are achieved
- 6) Regulatory and legislative standards are complied with and are monitored.
- 7) Value for Money is achieved in maintaining and investing in the Assets

**4.14** in developing the 2023/24 programme the key drivers were:

- Meeting the requirements set out in the Building Safety Act
- Replacements and upgrades identified through Fire Risk assessment
- Replacement of building components identified as 'beyond repair' in the current year
- Mechanical, electrical and compliance replacements identified through test and inspection
- Component replacement on a worst first basis driven by repairs information and data validation
- Pilot programme to develop proposals for moving housing assets from SAP D,E and F to a SAP C rating.
- Stock condition surveys to inform the asset management strategy and future programmes

Table 2 Summary of HRA Capital Programme 2023/24

<b>CAPITAL PROGRAMME</b>	<b>£m</b>
Property Improvements	15.411
Communal area Improvements	5.875
Building safety and Compliance	9,940
Regeneration	1.750
<b>Total capital Programme</b>	<b>31.476</b>

**4.14** The 2023-24 capital programme building safety and compliance elements are met through

	<b>Statutory and Compliance programme</b>	<b>Budget £m</b>
Building safety	Replacement security doors	0.50
Building safety	Structural surveys	0.24
Building safety	Replacement Cladding	0.65
Building safety	Asbestos	0.20
Building safety	structural repairs (subsidence)	0.30
Building safety	Building Safety Consultancy	0.75

Compliance	Cyclical servicing and maintenance	1.79
Compliance	Electrical rewires	2.00
Fire risk assessment	Emergency lighting upgrades	1.00
Fire risk assessment	Fire alarm replacement	0.40
Fire risk assessment	Fire safety work (Regulatory reform (fire safety) order	0.50
Fire risk assessment	Replacement fire doors	1.61
	<b>Total Statutory &amp; Compliance Programme</b>	<b>9.94</b>

#### 4.15 Our future 10 year programme

The 2024-25 capital programme will consist of a strengthened responsive repairs programme that reflects the outcomes of the rolling surveys. In addition the intention is to invest in, improve and rebuild and develop our stock which will require the capacity to borrow significantly to realise these projects. Officers will also seek to work with partners and seek any available grants in order to ensure maximising the potential of the investments. A review of buildings and land will also 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.

**4.16** The 2025-26 programme will be further expanded to begin the programme of work in relation to the 13 other LPS blocks within the borough. The expectation of an additional £15.3m per year over 12 years

## 5 ALTERNATIVE OPTIONS CONSIDERED

**5.1** The plan modelled a number of scenarios based on a range of assumptions as detailed in Appendix C section 3 thus providing a level of assurance for the basis of the current business plan model.

- 5.2 The plan shows a varied impact to both positive and negative sensitivities noting that consideration should be given to the level of residual debt that the HRA has at year 30. Although there is no statutory requirement for repayment.

## **6 CONSULTATION**

- 6.1 As part of the rent setting 2023-24 engagement with residents was carried out through meeting of tenants and leaseholders in October and a specially convened Tenants & Leaseholder Panel meeting in December. In addition, a short an engagement survey was launched the feedback of which captured tenants' priorities.

- 6.2 The capital programme set out above is seeking to address the concerns raised by tenants in the top five priorities:

- 1) Keeping my block, estate, and neighbourhood clean and tidy
- 2) Improved repairs service
- 3) Internal works (windows, doors replacement)
- 4) Tackling anti-social behaviour
- 5) More CCTV (closed circuit television) and security

- 6.3 The clear messages from the survey responses are addressed in the current iteration of the business plan and will continue to be addressed as part of the ongoing capital programme.

“All services are important and needed so with the proposed rent increase all above should be improved without sacrificing another”

“The council needs to take much better care of their properties; they are falling into disrepair”

- 6.4 The Housing Directorate has held a dedicated 30-year HRA Business Plan briefing with the Housing Improvement Board to enable independent scrutiny of the Plan. The briefing is the first stage of broader joint-working with the Housing Improvement Board to ensure the Plan meets the needs of current and future tenants and leaseholders.

## **7. IMPLICATIONS**

### **7.1 FINANCIAL IMPLICATIONS**

This plan sets out the both the balanced HRA revenue budget for 2023-24, capital budget for 2023-24 as well as the projected capital expenditure and financing for the 30 year period. The report assists the Council's in determining the asset management strategy moving forward. It also assists in determining potential borrowing requirements and prudential borrowing indicators as part of the Council's medium-term financial strategy and treasury management strategy. There will be a need for a fuller review of the 30-year business plan once the results of the stock condition survey are available later this year.

Insert at the end of the section: Comments approved by Interim Head of Service, Finance on behalf of the Corporate Director of Resources. (Date 11/01/2023)

### **7.2 LEGAL IMPLICATIONS**

- 7.2.1** The Council's duties in relation to the HRA are set out in Part VI of the Local Government and Housing Act 1989. In particular, Section 76 of the 1989 Act places a duty on the Council to secure that the HRA for any year does not show a debit balance.
- 7.2.2** Section 76 of the 1989 Act requires the Council in the January or February preceding the relevant year to formulate proposals relating to (a) income from rents and other charges, and (b) the expenditure on repairs, maintenance, supervision and management of its houses. In formulating these proposals, the Council must secure that, on implementation, the HRA will not show a debit balance, assuming the following: a. that the best assumptions that they are able to make at that time as to all matters which may affect the amounts falling to be credited or debited to the HRA in the year prove to be correct; and, b. that the best estimates that they are able to make at that time of the amounts which, on those assumptions, will fall to be so credited or debited, also proves to be correct.
- 7.2.3** The Council is further obliged to keep the proposals referred to in this report under review to see if the requirement to avoid a debit balance continues to be satisfied during the year. In the event that the Council, on review, determines that this requirement will not be satisfied then the Council is, by virtue of Section 76(6), required to "make such revisions of the proposals as are reasonably practical towards securing that the proposals (as so revised) satisfy those requirements". The duty in relation to "best assumptions and estimates" referred to above applies equally to such revised proposals.
- 7.2.4** As regards an application to the Secretary of State to establish an HRA Hardship Fund, this would be an application for a direction from the Secretary of State permitting the Council to make certain additional credits and debits to the HRA under Item 9 Part I and Item 10 Part II of Schedule 4 of the 1989 Act in relation to Discretionary Housing Payments. Guidance from the Secretary of State indicates that as there is no express provision in the 1989 Act relating to the funding of DHPs from the HRA, the Secretary of State is prepared to issue Directions to individual authorities to put the matter beyond doubt, subject to certain rules and limits. Following contact with the DLUHC, a draft direction has been sent to the Council for comments.
- 7.2.5** Insert at the end of the legal section: Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 09/02/2023)

### **7.3 EQUALITIES IMPLICATIONS**

- 7.3.1** Under the Public Sector Equality Duty of Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.
- 7.3.2** As a result, an overarching equality impact analysis has been undertaken in relation to the HRA 30 year business plan. Overall, given this plan is about investment in housing stock, there will likely be positive impacts for residents. However, the impact analysis has confirmed that the service does not have sufficient data on protected characteristics of Council tenants. This has been

recognised by the service and forms a workstream within the housing improvement plan. This work will ensure that activities and actions are inclusive to all residents.

**7.3.3** The EQIA notes the negative impact on all tenants in respect of potential fuel poverty will be mitigated through the actions set out including increased engagement and a focus on properties most in need of investment.

**7.3.4** Comments approved by Felisha Dussard on behalf of the Equalities Manager (08/02/2023)

## **OTHER IMPLICATIONS**

### **7.3.5 HR IMPLICATIONS**

There are no immediate HR implications arising from this report. In the event of any workforce impact the council will need to implement it's HR policy framework to manage the change process and to ensure adequate consultation with any staff that may be impacted upon, as well as the recognised trade unions.

Approved by: Dean Shoesmith, Chief People Officer

### **7.3.6 ENVIRONMENTAL IMPACT**

The scope for this work impacting on carbon neutrality is set out within scenario modelling of the additional stock investment required to meet the costs of improving the stock to a zero-carbon standard. (Appendix C Paragraph 3.2)

Approved by Stephen Tate, Director of Housing – Estates and Improvement

## **8. APPENDICES**

*A. HRA (Housing Revenue Account) Budget 2023-24*

*B. HRA Capital Programme*

*C. Savills Draft Report: Housing Revenue Account Business Plan and Capacity Update December 2022*