Housing Revenue Account Business Plan and Capacity Update

Draft Report v2 (updated for revised budgets)
11 December 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 Housing Revenue Account (HRA) Business Plan.

This builds upon the work undertaken last year in establishing a fully refreshed 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 2022.23, in respect of projected rent increases, uplifts to repair costs following the re-letting of the contracts that provide this service, and to take on the results of last year's initial stock condition survey combined with the results of work undertaken by officers to establish projected costs of energy efficiency works and to undertake building safety.

In the coming months, the Council will develop a new Asset Management Strategy that will inform this plan and which will reflect the results of ongoing, more extensive, stock condition surveys. Therefore, it is highly likely that future versions of this plan from 2025.26 will incorporate a different profile in terms of stock investment.

This plan is based on the 2023.24 budget and the draft for 2024.25, proposed with anticipated increases predominately for repairs, which are greater than those originally forecast. It also incorporates the provisional capital programme for 2024.25 and subsequent years.

At this time, the plan excludes any detailed estate regeneration or further acquisition or development programmes. However, overall provision has been made for estimates for both works to the LPS blocks and the Regina Road estate regeneration.

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 leaseholders due to current lease arrangements. Furthermore additional revenue resource is required in relation to ensuring compliance.

Enhanced Regulation and Tenant Satisfaction Measures
The Social Housing (Regulation) Act has introduced enhanced powers for the Regulator for Social Housing to monitor compliance with a refreshed set of consumer standards, and has also has introduced statutory collections and reporting for Tenant Satisfaction Measures. For all local authorities with stock, Croydon will in future be subject to an inspection by the Regulator which will provide a grading as to the compliance the Council is achieving against these standards.

1.3. Approach

This report sets out the work we have undertaken 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 2024.25 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 further details become available 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 2023.24 latest projections for the HRA
- 29 year projections from 2024.25 based on the provisional 2024.25 budget
- Core inflation projected at 2.0% thereafter with exceptions as detailed below
  - 2.5% for April 2025
- Rents increasing at CPI per annum with the exception of the following:
  - 7.7% April 2024 (on the basis of the current final year of the social housing rent policy, applying September 2023 CPI +1%)
  - CPI only beyond April 2024 in the absence of any future guidance to be prudent
- Depreciation provision increasing at CPI throughout
- Due to the reletting of new revenue repairs contracts and the impact of inflation, damp and mould and disrepair claims the forecast expenditure for 2024.25 increases by £4.5 million, some 19.2%. However, this is modelled as a short-term impact assuming that capital investment will alleviate such pressures in the medium term
- Maintenance of the existing tenanted stock (subject to Right to Buy sales and excluding estate regeneration) is modelled at a total of £873.1million over the 30 years from 2023.24
- Provision of £103million for the Regina Road estate regeneration (with grant contributions of c£40.5million) and a 7 year programme totalling £55.6million for works to LPS blocks
- The inclusion of 38 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 on the key elements of the plan.

Rents

The rents contained within the modelling are consistent with the current social rent policy where the increase applied to April 2024 is restricted to 7.7% (September CPI of 6.7% + 1%).

Rent levels, as an average for 2024.25, will be £133.36 per week on a 50 week basis and £205.34 for the 232 tenancies on affordable rents.

The rent policy moving forward will be consulted on by government during 2024 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 0.84% have been modelled throughout the plan.

Service Charges
In respect of tenants and increase for 2024.25 of 7.7% has been applied, matching the rent increase levels, which still results in under-recovery of costs. 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) remain at £2.052million.

Other Income
Garage income remains static at £0.969million.

There are a range of other internal recharges between the HRA and General and with the service itself that have been reviewed resulting in an increase, broadly 5.7%, of budgeted income for 2023.24.

Management
In overall terms management costs increase by 7.4%, similar to rent increases. Short and long-term growth items have been included within the modelling to cover team growth and legal costs following dis-repair claims.

Repairs
The forecast position for 2024.25 will see significant growth building on the procurement of new repairs contracts but also the cost of ensuring compliance with building safety, disrepair claims and dealing with damp and mould cases. It is anticipated that costs will return to similar levels to 2023.24 after two years.

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 an improved estimate, 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 – Long-Term 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.

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.

In terms of the short-term capital programme, the following costs have been factored into the model.

Table 2.2 – Short-Term Capital Investment Projections

	23/24	24/25	25/26	26/27	27/28	28/29
Adaptations	1,200,000	1,000,000				
Building Safety	1,384,650	5,255,000	40,300,000	20,000,000	8,515,000	-
Environmental work	-	-				
M&E Major Repairs and Improvements	6,208,354	5,245,000				
M&E Building Safety	2,350,263	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000
Net Zero	20,965	1,000,000				
Programmed Renewals	7,214,577	8,050,000	32,026,500	25,749,000	28,015,028	28,015,028
Projects	2,294,795	2,575,000				
Regeneration	-	2,000,000	-	-	-	-
Regeneration	1,500,000	14,105,000	14,105,000	14,105,000	14,105,000	14,105,000
Repairs referals	8,800,000	8,600,000	7,500,000	7,500,000	7,500,000	7,500,000
Staffing Costs	2,200,000	3,200,000				
Surveys and data collection	797,644	1,055,000				
EI referals	1,418,653	2,000,000				
	35,389,900	**57,235,000**	**97,081,500**	**70,504,000**	**61,285,028**	**52,770,028**

The expenditure in the above table is higher than the outputs for the early years of the stock condition survey as on account of the details provided in the section below. This also explains the slight increase in overall investment over 30 years in the housing stock.

Additional Provisions Over and Above Works Identified within the Stock Condition Data Over the Next 10 Years

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 £158.6m 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 with a provision of a total £103million over the next 6 years. It is anticipated that LBC with achieve grant contributions of c£40.5million towards the costs of these works. This is accounted for in the Regeneration Line of table 2.2.

2. Regeneration programme – £55.6million – 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. A large proportion of this is accounted for in the Building Safety line of table 2.2.

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.

New Build / Development Assumptions

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.

Interest Rates

The opening debt (HRA Capital Financing Requirement or HRACFR) stands at £365.497million. It is currently financed by 38 fixed loans totalling £332.765million 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 £32.732million difference and with a low level of 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 Council annually reviews its treasury management strategy.

As capital expenditure increases above current levels in order to meet the requirements as demonstrated in tables 2.1 and 2.2 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 3.5% has been assumed for future borrowing post 5 years, but rates of 5.0% reducing to 4.0% during the first 5 years of the plan.

2.3. HRA Business Plan 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 £9.5million has been applied.

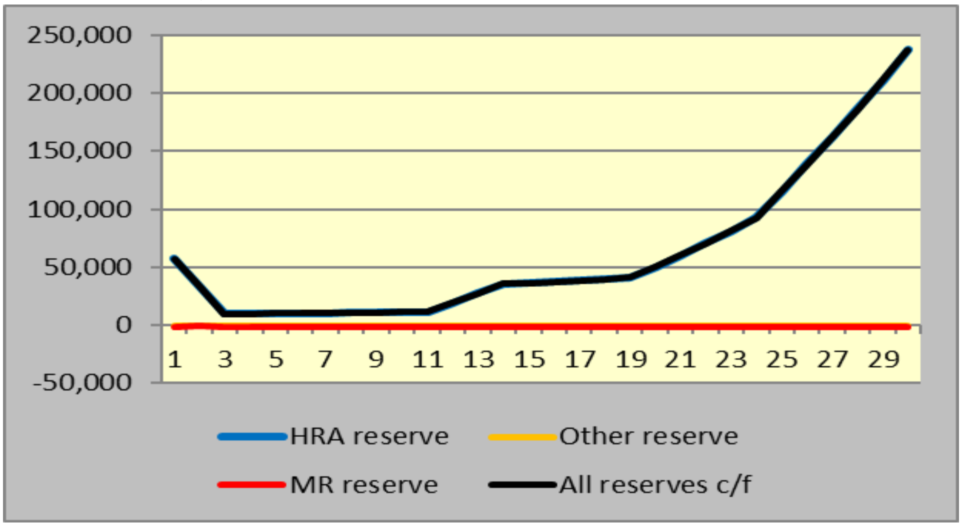
Various methodologies can be applied for arriving at this:

- Equivalent to a period of gross expenditure. In the case of LBC £9.5million is equivalent to 1.55 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 £9.5million equates to 9.89% whereas others we have worked with have set limits at 10%
- Finally a straightforward allowance per unit is used, which equates to £710 per unit whereas values closer to £700 per unit are modelled elsewhere.

Using the above benchmarks, the level of minimum balance modelled of £9.5million appears sufficient and will have CPI applied to it.

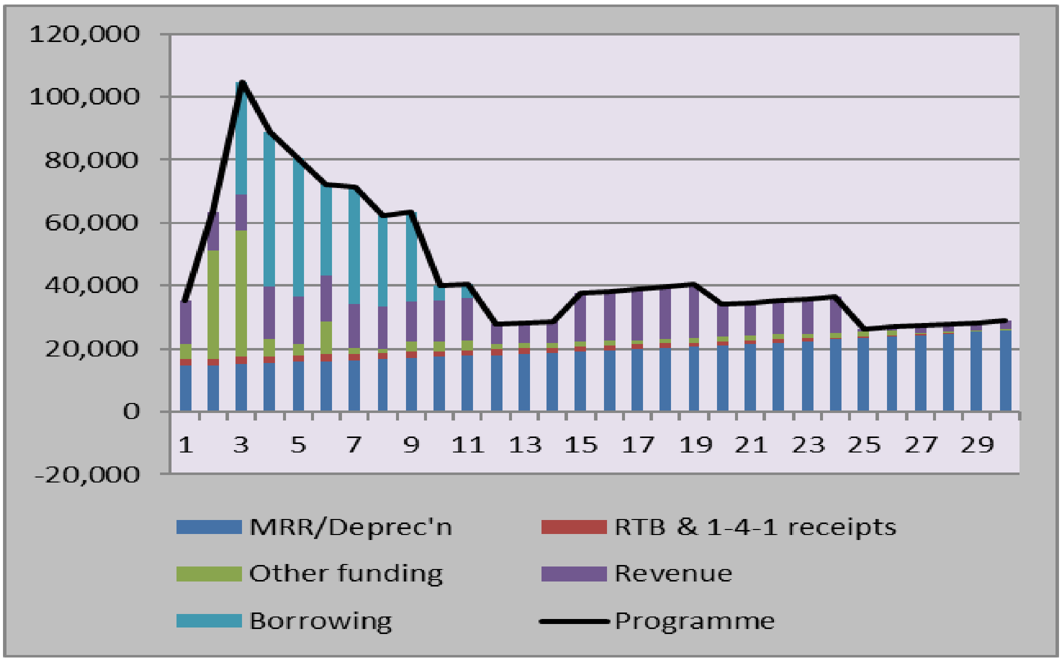
- Therefore, the graphs below will show the HRA, maintaining a minimum balance of £9.5million (inflated year on year) with the maximum level of resources available from the HRA utilised to either finance the capital programme and (if any remaining available) and to reserve balances.

Chart 2.1 – Projected HRA balances



This demonstrates that the HRA balance can be maintained at or above its minimum level for the duration of the plan. From year 19 onwards, as a result of a reduction in the expenditure within the provisional asset management strategy, revenue balances begin to accrue in the plan – up to c£202million over 30 years.

Chart 2.2 – Projected capital expenditure and financing



Capital expenditure is 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 projected expenditure to meet the requirements of building safety works and energy efficiency improvements plus additional provisions.

In order to part finance this, additional borrowing is required. As the full asset management strategy is developed in the next year, and additional surveys undertaken, both the profile and level of expenditure requirements are likely to change; however 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 Capital Expenditure (By Category)

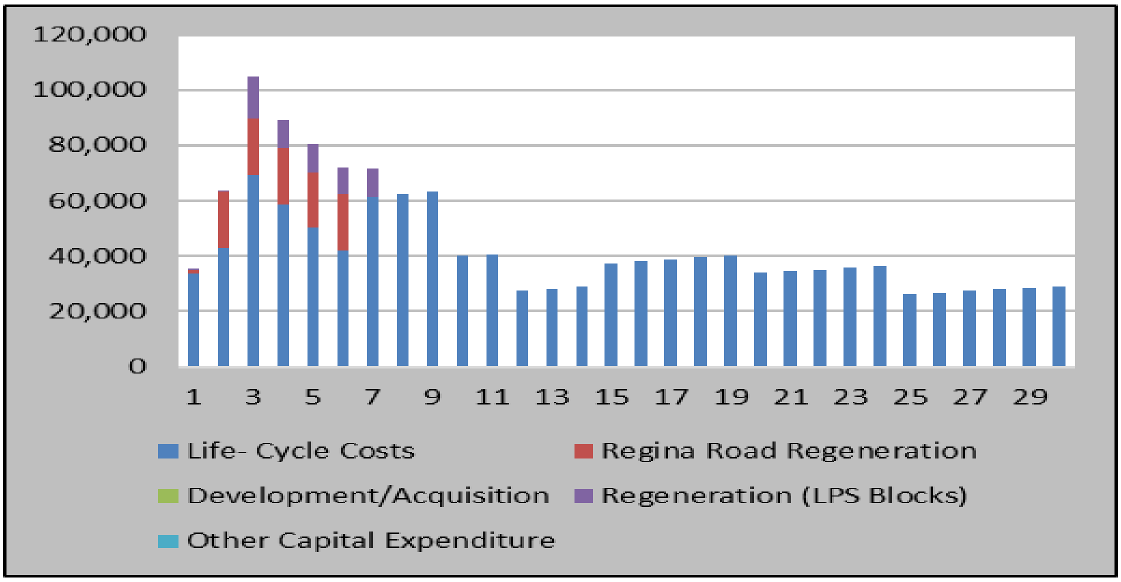
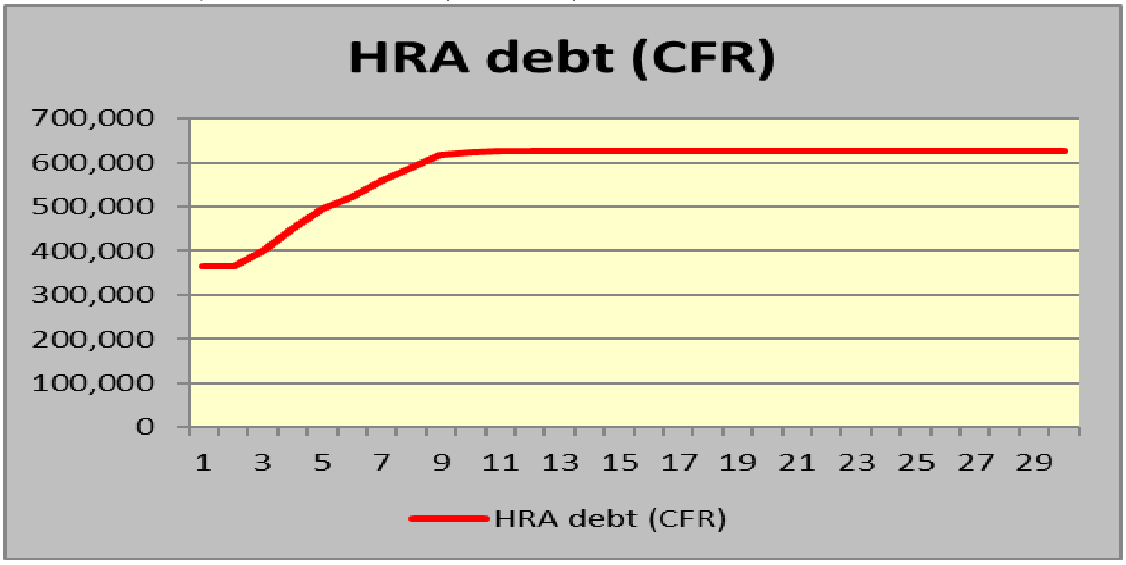


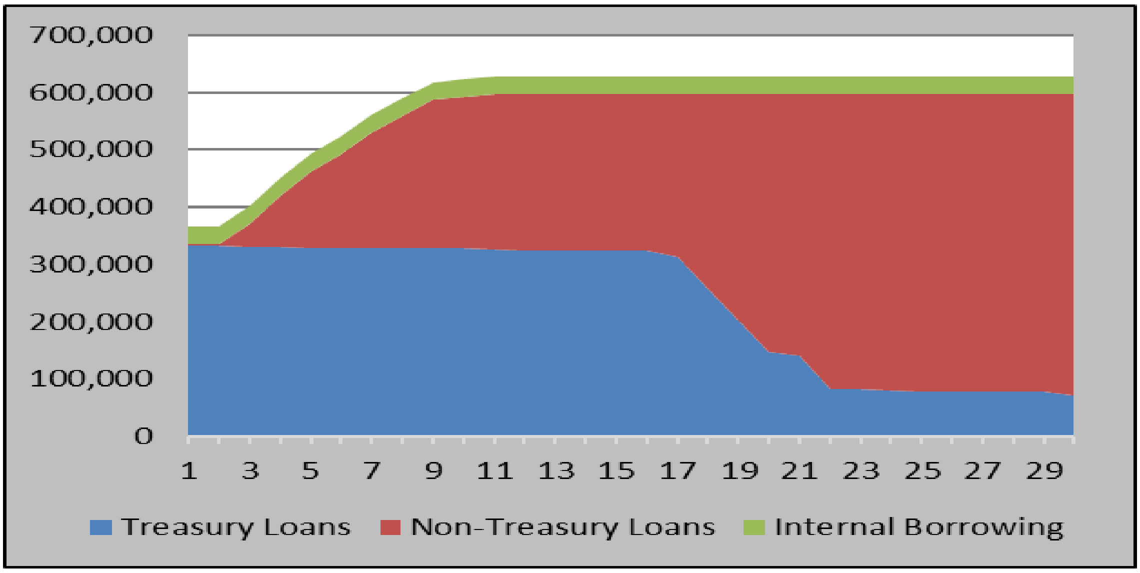
Chart 2.4 – Projected debt profile (HRACFR)



Borrowing is projected to peak in year 11 at £627.2million 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 2.5 – 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 projected across all years at 3.5%, with the exception of higher rates in the earlier years.

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 implemented was for a small minority of authorities that opted to bid for an increase in 2014.15.

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 2022.23 was around 1.10 although pressure on asset management and stock investment have led many to negotiate temporary arrangements with their funders that allow them to operate at a lower interest cover; typical lending covenants are 1.10 with 1.25 being a "golden rule" trigger below which action is taken to improve cover.

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 approach. 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 (Debt:T/Over)

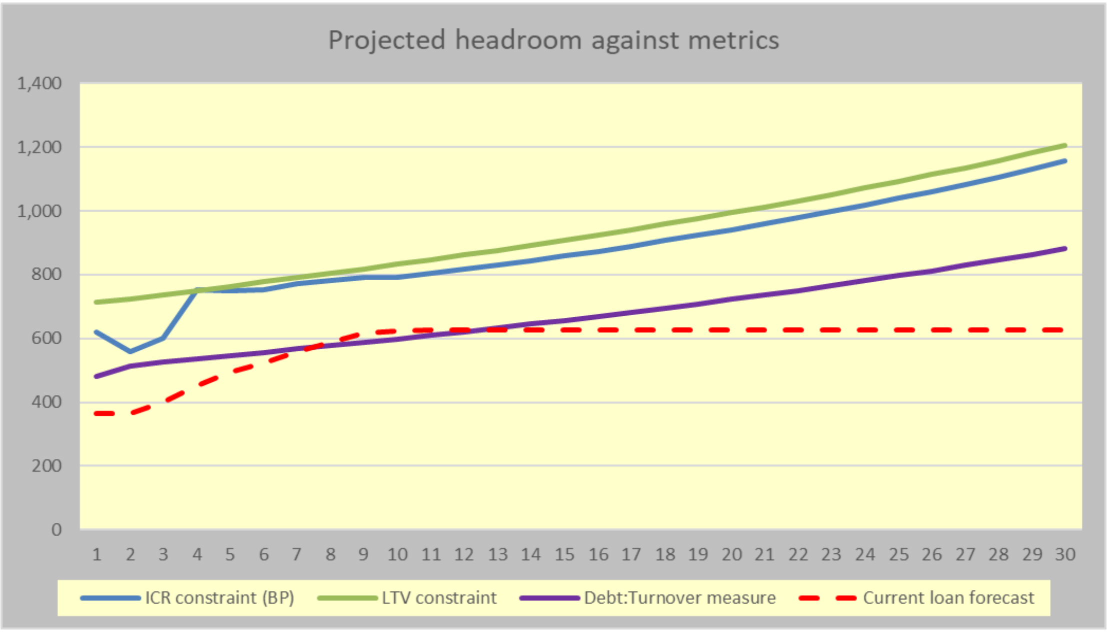
Another measure we have used for this analysis is the ratio of Debt to Turnover. This measure the level of turnover in relation to debt, which differs slightly from the ration used for assessing debtor balances against turnover. As a proxy we have suggested a ratio of 5:0, so that turnover can cover 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 2.6 – Projected Debt (HRACFR)Compared to Provisional Borrowing Limit



The red (dashed) line shows the projected loan balances, as per chart 2.4 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 £170million in year 10 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	**237**	**627**	**170 (10)**	**1,156**
Inflation +0.5% pa	306	628	200 (9)	1,326
Inflation -0.5% pa	175	627	141 (10)	1,008
Interest +0.25% pa	214	631	146 (10)	1,092
Rents CPI +1% all years	804	587	193 (2)	2,268
Rent Freeze (Yr 2 – 2025.26)	160	656	90 (10)	1,069
Capital Expenditure +5%	188	658	141 (10)	1,152
Capital Expenditure Inf +1% 5 Years	193	648	153 (10)	1,155
Repairs Expenditure Infl +1% 5 Years	199	637	133 (10)	1,122
No Reduction in Repairs Yr4	86	733	-11 (11)	953
Right to Buys (Reduced by 50%)	243	628	173 (10)	1,203
Voids +0.5% Bad Debts +1%	189	645	121 (10)	1,103

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)

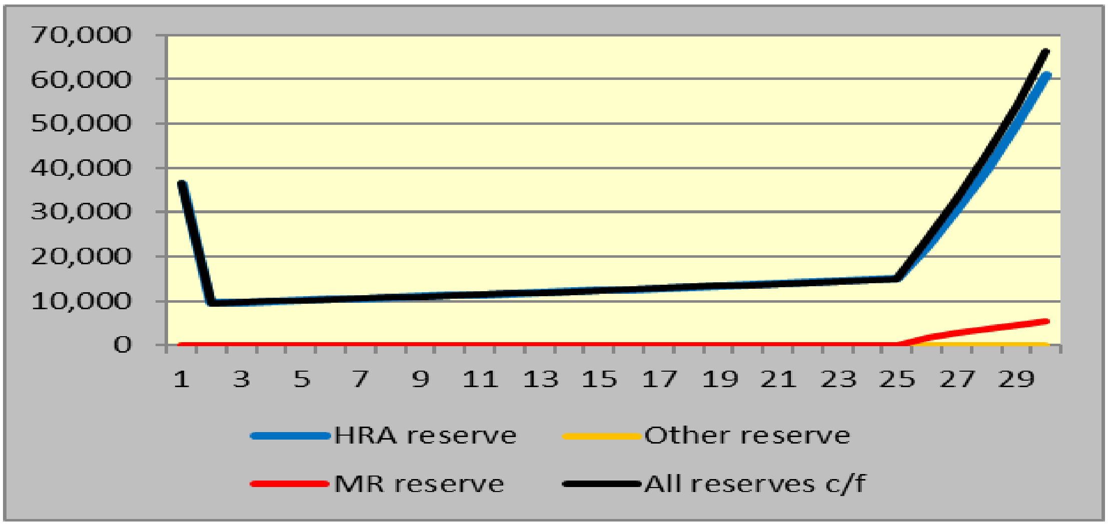
Element Group	Year 1	Years 2 to 3	Years 4 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Total
Catch Up Repairs	£972,438	£0	£0	£0	£0	£0	£0	£0	**£972,438**
Kitchens	£0	£2,050,000	£5,535,000	£32,800,000	£19,577,500	£7,892,500	£7,585,000	£32,800,000	**£108,240,000**
Bathrooms	£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.

All other assumptions in respect of Regina Road regeneration and works to LPS blocks remain.

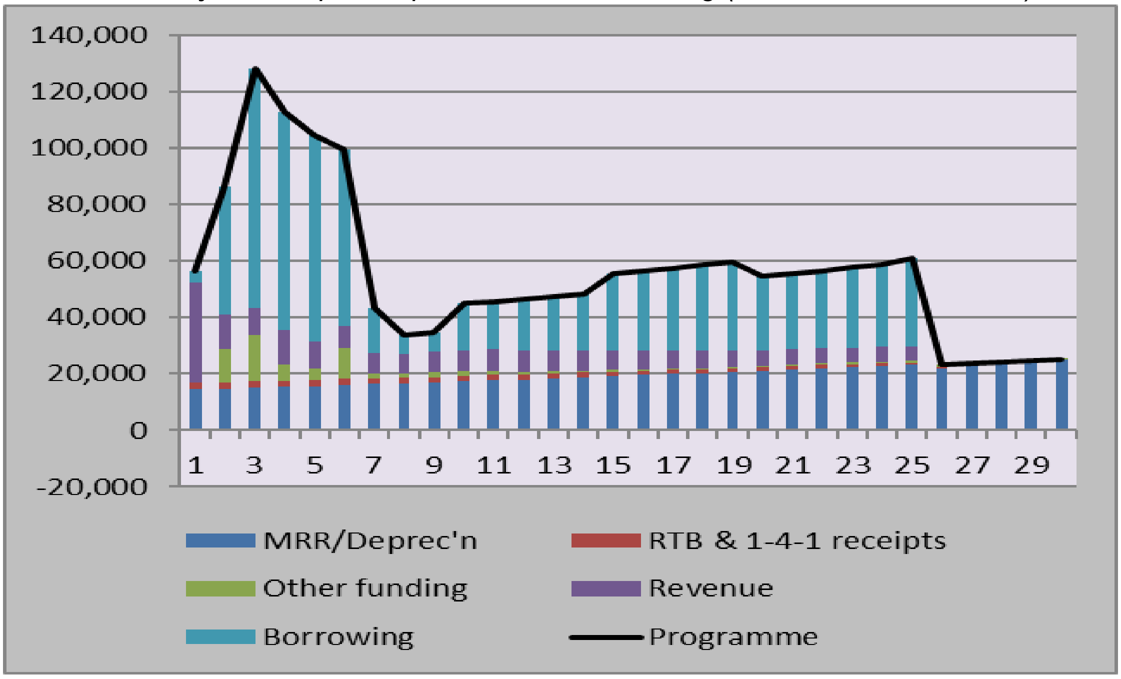
We have modelled the results of applying this level of investment to the plan

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



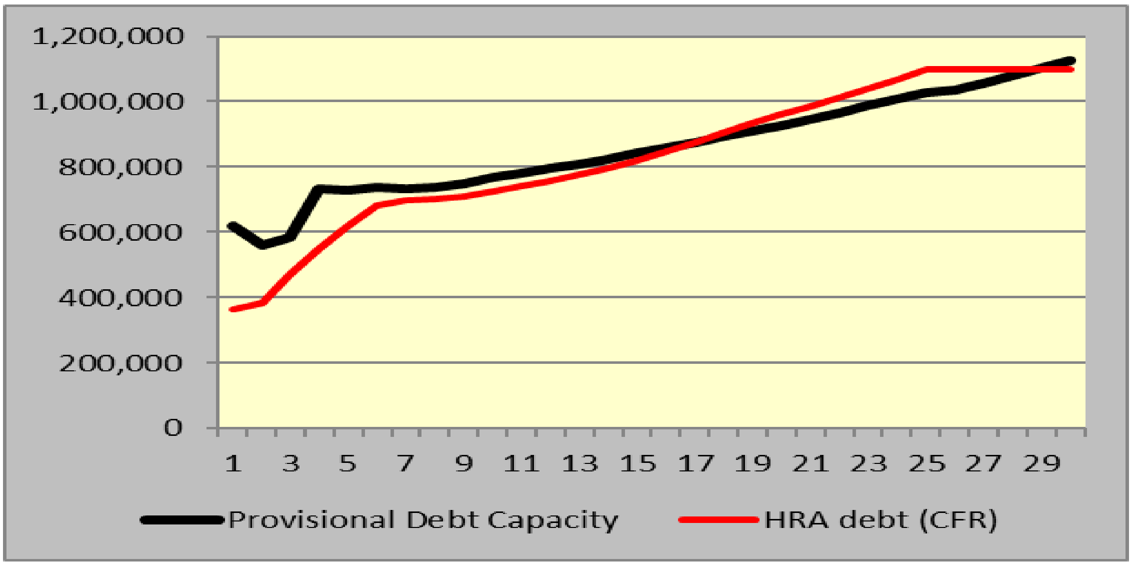
The HRA is able to maintain its minimum balance for the long-term with a gradual increase from year 26 to £60.9million.

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 £1.096billion.

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.

In terms of borrowing capacity, the plan exceeds the golden-rule set within the plan over the longer-term of the plan.

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. 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.

6. 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.

7. 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
December 2023

Appendix 1 Key Assumptions

	Assumption	Notes

Dwelling Rent	7.7% Increase 2024.25 then CPI only thereafter	
Void rates	1.66%	
Service Charges	7.7% 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	CPI only increases (reduced budgets post yr 4)	
Heating and hot water charges	CPI only increases	
Interest rate on borrowings	Based on Existing actual rates c3.28% then average of 3.5%	
Depreciation	Straight Line Basis over life of Assets	

Appendix 2 Benchmarks

Outer-London Benchmarks for Financial Year 2021.22 (noting that 2022.23 accounts are still in the process of being published by boroughs).

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

Appendix 3 Financial Tables

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Financial Year	**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**	**2037.38**
	£'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	85,380	91,568	93,626	95,387	97,102	99,044	101,046	102,860	104,717	106,618	108,566	110,562	112,607	114,702	116,850
Non-dwelling rents	1,008	1,010	1,035	1,056	1,077	1,099	1,121	1,143	1,166	1,189	1,213	1,237	1,262	1,287	1,313
Service charge income	6,679	7,035	7,211	7,355	7,502	7,653	7,806	7,962	8,121	8,283	8,449	8,618	8,790	8,966	9,145
Other income and contributions	2,979	3,122	3,200	3,264	3,329	3,396	3,464	3,533	3,604	3,676	3,750	3,825	3,901	3,979	4,059
Total income	**96,046**	**102,736**	**105,073**	**107,063**	**109,012**	**111,191**	**113,437**	**115,498**	**117,608**	**119,767**	**121,978**	**124,242**	**126,560**	**128,935**	**131,367**
Repairs & maintenance	23,448	27,950	28,579	23,674	24,094	24,576	25,024	25,504	25,984	26,467	26,983	27,485	28,000	28,526	29,064
Management (incl RRT)	30,990	35,778	36,673	35,315	36,022	36,742	37,477	38,226	38,991	39,771	40,566	41,377	42,205	43,049	43,910
Bad debts	750	751	768	782	796	812	829	843	859	874	890	906	923	940	958
Depreciation	14,729	14,729	15,094	15,394	15,699	16,011	16,331	16,657	16,991	17,330	17,677	18,031	18,391	18,759	19,134
Debt management	162	166	170	174	177	181	184	188	192	195	199	203	207	212	216
Total costs	**70,079**	**79,374**	**81,283**	**75,339**	**76,787**	**78,321**	**79,845**	**81,419**	**83,016**	**84,638**	**86,315**	**88,003**	**89,726**	**91,486**	**93,282**
Net income from services	**25,968**	**23,362**	**23,790**	**31,724**	**32,224**	**32,870**	**33,592**	**34,079**	**34,592**	**35,130**	**35,663**	**36,239**	**36,834**	**37,449**	**38,086**
Interest payable	-12,231	-12,237	-12,490	-14,876	-16,770	-18,137	-19,293	-20,455	-21,463	-22,043	-22,193	-22,259	-22,258	-22,256	-22,249
Interest income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income/expenditure before appropriations	**13,737**	**11,124**	**11,300**	**16,848**	**15,455**	**14,733**	**14,299**	**13,624**	**13,129**	**13,087**	**13,470**	**13,979**	**14,576**	**15,193**	**15,837**
Set aside for debt repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue contributions to capital	-13,778	-12,196	-11,300	-16,653	-15,256	-14,531	-14,092	-13,413	-12,914	-12,867	-13,246	-6,166	-6,377	-6,756	-15,190
Allocation of Reserves to capital	-4,737	-22,412	-24,035	0	0	0	0	0	0	0	0	0	0	0	0
Net HRA Surplus/Deficit	**-4,778**	**-23,484**	**-24,035**	**195**	**199**	**203**	**207**	**211**	**215**	**219**	**224**	**7,814**	**8,198**	**8,437**	**646**
HRA Balance brought forward	**62,035**	**57,257**	**33,773**	**9,738**	**9,932**	**10,131**	**10,334**	**10,540**	**10,751**	**10,966**	**11,185**	**11,409**	**19,223**	**27,421**	**35,858**
HRA surplus/(deficit)	-4,778	-23,484	-24,035	195	199	203	207	211	215	219	224	7,814	8,198	8,437	646
HRA Balance carried forward	**57,257**	**33,773**	**9,738**	**9,932**	**10,131**	**10,334**	**10,540**	**10,751**	**10,966**	**11,185**	**11,409**	**19,223**	**27,421**	**35,858**	**36,504**
Other reserves brought forward	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Release of reserve	-4,737	-22,412	-24,035	0	0	0	0	0	0	0	0	0	0	0	0
Other reserves carried forward	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
HRA CAPITAL PROGRAMME															
Stock capital investment	33,617	43,007	69,158	58,751	50,094	41,834	61,424	62,428	63,458	39,950	40,605	27,703	28,245	28,755	37,530
Regina Road Regeneration	1,500	20,300	20,300	20,300	20,300	20,300	0	0	0	0	0	0	0	0	0
Development/acquisition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Regeneration (LPS Blocks)	250	50	15,300	10,000	10,000	10,000	10,000	0	0	0	0	0	0	0	0
Capital programme	**35,367**	**63,357**	**104,758**	**89,051**	**80,394**	**72,134**	**71,424**	**62,428**	**63,458**	**39,950**	**40,605**	**27,703**	**28,245**	**28,755**	**37,530**
Scheduled Loan Repayment	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financed by...															
Major Repairs Reserve	-14,729	-14,704	-15,119	-15,394	-15,699	-16,011	-16,331	-16,657	-16,991	-17,330	-17,677	-18,031	-18,391	-18,759	-19,134
1-4-1 receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other receipts and grants	-4,737	-34,312	-40,405	-5,563	-3,573	-10,671	-1,686	-1,235	-3,133	-3,196	-3,260	-1,750	-1,785	-1,615	-1,647
Revenue contributions	-13,778	-12,196	-11,300	-16,653	-15,256	-14,531	-14,092	-13,413	-12,914	-12,867	-13,246	-6,166	-6,377	-6,756	-15,190
HRA borrowing	0	0	-35,768	-49,254	-43,729	-28,821	-37,252	-29,115	-28,475	-4,677	-4,602	0	0	0	0
Capital financing	**-35,367**	**-63,357**	**-104,758**	**-89,051**	**-80,394**	**-72,134**	**-71,424**	**-62,428**	**-63,458**	**-39,950**	**-40,605**	**-27,703**	**-28,245**	**-28,755**	**-37,530**
Net balance on capital programme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Major Repairs Reserve b/fwd	**0**	**0**	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
HRA depreciation (net)	14,729	14,729	15,094	15,394	15,699	16,011	16,331	16,657	16,991	17,330	17,677	18,031	18,391	18,759	19,134
Financing for capital programme	-14,729	-14,704	-15,119	-15,394	-15,699	-16,011	-16,331	-16,657	-16,991	-17,330	-17,677	-18,031	-18,391	-18,759	-19,134
Debt Repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Major Repairs Reserve c/fwd	**0**	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

savills

Year	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Financial Year	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	2052.53
	£'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	119,052	121,309	123,624	125,998	128,434	130,932	133,495	136,126	138,826	141,597	144,442	147,363	150,362	153,442	156,606
Non-dwelling rents	1,340	1,366	1,394	1,421	1,450	1,479	1,508	1,539	1,569	1,601	1,633	1,666	1,699	1,733	1,767
Service charge income	9,328	9,515	9,705	9,899	10,097	10,299	10,505	10,715	10,930	11,148	11,371	11,599	11,831	12,067	12,309
Other income and contributions	4,140	4,223	4,307	4,393	4,481	4,571	4,662	4,755	4,850	4,947	5,046	5,147	5,250	5,355	5,462
Total income	**133,859**	**136,413**	**139,030**	**141,712**	**144,462**	**147,281**	**150,171**	**153,135**	**156,175**	**159,293**	**162,492**	**165,774**	**169,142**	**172,597**	**176,144**
Repairs & maintenance	29,615	30,178	30,754	31,344	31,948	32,565	33,197	33,844	34,507	35,185	35,879	36,589	37,317	38,061	38,824
Management (incl RRT)	44,788	45,684	46,598	47,530	48,480	49,450	50,439	51,448	52,477	53,526	54,597	55,689	56,802	57,938	59,097
Bad debts	976	994	1,013	1,032	1,052	1,073	1,094	1,115	1,137	1,160	1,183	1,207	1,232	1,257	1,283
Depreciation	19,517	19,907	20,305	20,711	21,126	21,548	21,979	22,419	22,867	23,324	23,791	24,267	24,752	25,247	25,752
Debt management	220	225	229	234	238	243	248	253	258	263	268	274	279	285	290
Total costs	**95,116**	**96,988**	**98,899**	**100,851**	**102,844**	**104,879**	**106,957**	**109,079**	**111,245**	**113,458**	**115,718**	**118,025**	**120,382**	**122,789**	**125,247**
Net income from services	**38,744**	**39,425**	**40,131**	**40,861**	**41,618**	**42,402**	**43,214**	**44,056**	**44,930**	**45,835**	**46,774**	**47,749**	**48,760**	**49,809**	**50,897**
Interest payable	-22,249	-22,237	-22,204	-22,209	-22,209	-22,135	-22,129	-22,117	-22,115	-22,110	-22,108	-22,108	-22,108	-22,108	-22,080
Interest income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income/expenditure before appropriations	**16,495**	**17,188**	**17,927**	**18,652**	**19,408**	**20,267**	**21,086**	**21,939**	**22,814**	**23,725**	**24,667**	**25,641**	**26,652**	**27,701**	**28,817**
Set aside for debt repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue contributions to capital	-15,588	-16,348	-16,669	-17,000	-10,341	-10,563	-10,742	-11,140	-11,434	-990	-1,102	-2,330	-2,482	-2,644	-2,857
Allocation of Reserves to capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net HRA Surplus/Deficit	**907**	**840**	**1,258**	**1,652**	**9,067**	**9,704**	**10,344**	**10,799**	**11,380**	**22,735**	**23,565**	**23,310**	**24,170**	**25,057**	**25,960**
HRA Balance brought forward	**36,504**	**37,411**	**38,252**	**39,510**	**41,162**	**50,229**	**59,933**	**70,277**	**81,076**	**92,456**	**115,191**	**138,756**	**162,066**	**186,236**	**211,293**
HRA surplus/(deficit)	907	840	1,258	1,652	9,067	9,704	10,344	10,799	11,380	22,735	23,565	23,310	24,170	25,057	25,960
HRA Balance carried forward	**37,411**	**38,252**	**39,510**	**41,162**	**50,229**	**59,933**	**70,277**	**81,076**	**92,456**	**115,191**	**138,756**	**162,066**	**186,236**	**211,293**	**237,253**
Other reserves brought forward	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Release of reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other reserves carried forward	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
HRA CAPITAL PROGRAMME															
Stock capital investment	38,275	38,932	39,605	40,296	34,005	34,602	35,215	35,843	36,489	26,400	26,871	27,355	27,853	28,363	28,888
Regina Road Regeneration	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Development/acquisition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Regeneration (LPS Blocks)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital programme	**38,275**	**38,932**	**39,605**	**40,296**	**34,005**	**34,602**	**35,215**	**35,843**	**36,489**	**26,400**	**26,871**	**27,355**	**27,853**	**28,363**	**28,888**
Scheduled Loan Repayment	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financed by...															
Major Repairs Reserve	-19,517	-19,907	-20,305	-20,711	-21,126	-21,548	-21,979	-22,419	-22,867	-23,324	-23,791	-24,267	-24,752	-25,247	-25,752
1-4-1 receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other receipts and grants	-1,680	-1,256	-1,281	-1,306	-1,333	-1,359	-1,415	-1,444	-1,473	-1,502	-1,532	-454	-463	-473	-482
Revenue contributions	-15,588	-16,348	-16,669	-17,000	-10,341	-10,563	-10,742	-11,140	-11,434	-990	-1,102	-2,330	-2,482	-2,644	-2,857
HRA borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital financing	**-38,275**	**-38,932**	**-39,605**	**-40,296**	**-34,005**	**-34,602**	**-35,215**	**-35,843**	**-36,489**	**-26,400**	**-26,871**	**-27,355**	**-27,853**	**-28,363**	**-28,888**
Net balance on capital programme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Major Repairs Reserve b/fwd	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
HRA depreciation (net)	19,517	19,907	20,305	20,711	21,126	21,548	21,979	22,419	22,867	23,324	23,791	24,267	24,752	25,247	25,752
Financing for capital programme	-19,517	-19,907	-20,305	-20,711	-21,126	-21,548	-21,979	-22,419	-22,867	-23,324	-23,791	-24,267	-24,752	-25,247	-25,752
Debt Repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Major Repairs Reserve c/fwd	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**