

LONDON BOROUGH OF CROYDON

REPORT:	CABINET	
DATE OF DECISION	14 February 2024	
REPORT TITLE:	HRA Business Plan and Budget Update 2024-25	
CORPORATE DIRECTOR / DIRECTOR:	Susmita Sen, Corporate Director of Housing	
LEAD OFFICER:	Orlagh Guarnori, Head of Finance - Housing	
LEAD MEMBER:	Councillor Lynne Hale, Cabinet Member for Homes	
KEY DECISION?	Yes	<p>Decision incurs expenditure, or makes savings, of more than £1,000,000 or such smaller sum which the decision-taker considers is significant having regard to the Council's budget for the service or function to which the decision relates</p> <p style="text-align: right;">and</p> <p>Decision significantly impacts on communities living or working in an area comprising two or more Wards</p>
CONTAINS EXEMPT INFORMATION?	No	
WARDS AFFECTED:	All	

1 SUMMARY OF REPORT

- 1.1 This report presents the latest position for the 30 Year Business Plan (BP) for the Housing Revenue Account (HRA) with consideration to both capital and revenue investments required for the management and maintenance of Croydon Council's housing stock.
- 1.2 The BP 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 years period based on the available data at this point in time.
- 1.3 The budget is set based on the available data and reflects the increased pressures on repairs and maintenance costs. Monthly monitoring through the financial performance

reporting will be carried out. A full budget review will be carried out following the outcomes of the Asset Management Strategy due to Cabinet in summer 2024.

2 RECOMMENDATIONS

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

- 2.1** to recommend Full Council to agree the proposed HRA budget for 2024-25.
- 2.2** to recommend Full Council to agree the update to the HRA 30 years Business plan based on the HRA budget for 2024-25.
- 2.3** to note the assumptions in the Business Plan and the associated risk.
- 2.4** to note the ongoing work required on the asset management strategy and the enhanced stock condition surveys that are underway which will further inform the next iteration of the Business Plan.

3 REASONS FOR RECOMMENDATIONS

- 3.1** Section 76 of the Local Government and Housing Act 1989 requires Local Authorities with a Housing Revenue Account (HRA) to set a budget for the account, which is based on best assumptions, that avoids a deficit and keeps the HRA under review.
- 3.2** The 2024-25 budget (Table 1) has been developed through review of, baseline budget, current expenditure on housing services and capital investment required to maintain and improve the housing stock. In addition, an allocation has been made for acquisitions and regeneration to expand our housing stock.
- 3.3** The Housing Revenue Account (HRA) 30 years Business Plan sets out the long term financial position of this ring-fenced general fund account. The plan has been developed with Savills and is attached in Appendix A. Appendix B contains the Savills commentary report.
- 3.4** The plan is for a period of 30 years, with more focus on the first five years, which provides more certainty on costs, demands, resources and pressures, better enabling the prioritisation of housing investment. This plan's capital programme is based on the current limited stock condition data, from the 5% sample survey carried out by Savills in December 2022. Stock condition surveys have been commissioned and it is expected that 40% of the stock will have been surveyed by March 2024. The survey

outputs will inform Croydon's Asset Management Strategy which is due to Cabinet in summer 2024 and will also further inform the next iteration of the HRA Business Plan.

4 HRA REVENUE BUDGET 2024-25

- 4.1 The revenue budget for 2024-25 is set out in table 1 and shows a total budget of £103m. This is an increase of £7.1m from the 2023-24 budget.

Table 1: 2024-25 HRA Budget to Forecast

Description	2023-24 Budget	2023-24 Forecast P07	2024-25 Budget	Budget to Budget Variance
Rental Income	-82.07	-82.07	- 88.39	-6.32
Service Charge Income	-4.63	-4.63	- 4.98	-0.36
Concorde, Sycamore & Windsor (rental income for Temporary Accommodation provision)	-3.36	-3.36	- 3.61	-0.26
Other Income	-6.02	-6.02	- 6.17	-0.15
Subtotal Income	-96.07	-96.07	- 103.15	-7.08
Housing Capital Charges	40.90	40.90	39.19	-1.71
Responsive Repairs & Safety	20.40	32.32	26.86	6.46
Centralised Directorate expenditure	11.30	11.31	13.31	2.01
Tenancy & Resident Engagement	10.27	10.29	10.33	0.06
Tenant Support Services	6.70	6.75	6.76	0.06
Concorde, Sycamore & Windsor- Expenditure	3.40	3.36	3.59	0.19
Asset Planning	1.60	1.64	1.64	0.04
Capital Delivery (Homes & Schools)	1.50	1.47	1.47	-0.03
Subtotal Expenditure	96.07	108.03	103.15	7.08
Total HRA Net Expenditure	0.00	11.96	0.00	0.00

4.2 Income

- 4.2.1 The main source of income to the HRA is tenant rental income which funds approximately 90% of annual revenue income to the account. The other 10% of income to the income and expenditure account comes from non-dwelling rent and service charges.
- 4.2.2 Rental income and tenants service charges have been increased by 7.7% from April 2024. This is based on application of September 2023 CPI +1% in this, the final year of the social housing rent policy.
- 4.2.3 A prudent approach has been assumed for all other income streams with estimates at the current budget rates.
- 4.2.4 There is a total £7.1m increase on the income streams for the 2024-25 budget. The gain is required to fund the increased revenue expenditure.

4.3 Revenue Expenditure

- 4.3.1 Responsive Repairs growth of 33% is proposed. The increase in budget allocation is required to fund the growing demand on the repairs service, evidenced by the current year forecast overspend of £12m.
- 4.3.2 The repairs growth is targeted at five key areas:
1. Responding to the increase in repairs requests that have been received from tenants as a consequence of the historical under-investment in the stock including insufficient growth in responsive repair budgets as well as historic legacy issues identified since the implementation of the new contracts in August 2023.
 2. Damp and mould treatments and the significant work being undertaken to tackle our response to reports.
 3. Enhancing the capacity to meet the needs of The Social Housing (Regulation) Act 2023, including the changes from “Awaab’s Law”. New rules will form part of the tenancy agreement under which residents can hold landlords to account if they fail to provide a “decent” home.
 4. The ongoing work to manage the legacy voids and ensure that we are turning around our stock to a good lettable standard in a timely way.
 5. Tackling the disrepair and legacy disrepair cases that are yet to be addressed. The increased budget is made with a commitment to clear the current backlog within 18 months.
- 4.3.3 We are looking at staffing structures, with potential growth in specific areas, to ensure we have the capacity to achieve the key aims in the Housing Strategy and to deliver the housing service in line with resident expectations and performance targets set by the Housing Improvement Board.

5 HRA CAPITAL BUDGET 2024-25

5.1 Capital Expenditure

- 5.1.1 Table 2 below sets out a detailed 1-year programme for 2024-25 and Appendix D sets out what makes up the overall major works budget of £23m. The major capital works for 2024-25 have been determined based on prior year activity levels whilst we await the outcomes of the stock condition surveys. Work is ongoing to ensure that the data from the survey outcomes are included in an asset management database, which will form the basis for the new Asset Management Strategy.
- 5.1.2 This updated Asset Management Strategy will allow for a more developed capital budget to be set and will inform future iteration of the HRA business plan. For the purposes of ensuring sufficient provision for known areas of spend a high level capital budget has been set for the years 2025-26 onwards.

Table 2 Capital Programme Budget						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
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
Decarbonisation	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				
Acquisitions	-	2,000,000	-	-	-	-
Regina Road	1,500,000	14,105,000	14,105,000	14,105,000	14,105,000	14,105,000
Repairs referrals	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 referrals	1,418,653	2,000,000				
	35,389,900	57,235,000	97,081,500	70,504,000	61,285,028	52,770,028

5.1.3 The budget increases in 2024-25 and then significant further increases from 2025-26 over the next three years. The high-level budget in future years can be summarised into provision for:

Building Safety:

- Following the tragic fire at Grenfell Tower significant new emphasis has been rightly placed on preventative works to meet fire safety requirements. There is a requirement to comply with the Fire Safety and Building Safety Acts and Croydon is undertaking the requisite surveys and building safety case reviews to ensure compliance. This work will continue in 2024-25 and future budgets at a high level have been set to meet the needs of the outcomes of those surveys to ensure our compliance with the Building Safety Act.
- Awaab's Law is also embedded in the Act and follows the death of 2-year old Awwab Ishak in 2020 due to damp and mould exposure in his Rochdale home. Croydon is addressing this within its responsive repairs revenue budget (see 4.3.2) Provision for a capital element to these costs has also been made.
- From 2025-26 onwards a regeneration programme will reflect the outcomes of the Fire and Building Safety surveys.
- An investment programme is required to redevelop buildings within the HRA stock in particular a review of those assets where the Net Present Value (NPV) indicates that they are of an age, type of construction or condition that responsive repairs are no longer value for money. The expectation is that the outcome of surveys on other high-rise buildings and blocks will inform this element of the programme. An allocation has been included to support future regeneration works.
- A housing capacity programme to review HRA assets and develop their full potential, for example further development on an existing site.

Programmed Works:

- The detailed 2024-25 programme of £23m is included in Appendix C. As stated in 5.1.3 we are awaiting the outcomes of the stock condition surveys, the combined budget of £32m proposed for 2025-26 will be further broken down into individual projects and delivery plans.
- In developing the future programmed works spend will also reflect a housing capacity programme to review HRA assets and develop their full potential, for example further development on an existing site.

Regina Road:

- The current development plan at Regina Road is incorporated into the business plan at a delivery cost of £103m in accordance with the Cabinet approved budget. A prudent approach to grant allocation has been assumed and loss of rental income on the properties over five years is incorporated into the plan. The repairs and future capital maintenance costings have also been reviewed.

Acquisitions:

- For 2024-25 an allocation of £2m has been included to be used in conjunction with the Right To Buy (RTB) receipts to acquire up to 20 new properties. 20 units is reflecting the government cap on the use of RTB receipts usage in any financial year. The RTB receipts can be used to fund 40% of the cost of the home, the remaining 60% of the costs cannot include other forms of grant. Croydon has £43m of receipts available to spend to fund new homes. In order to avoid returning any unused receipts to DLUHC a full programme of acquisitions is required.
- In addition a review of Section 106 and the community infrastructure levy (CIL) will be carried out to ensure that maximisation of grants is carried out. S106 and CIL funds can be used to support the provision of services and infrastructure as well as affordable housing.

Sheltered and Extra Care Pilot:

- There are plans to development with Adults Social Care team a pilot for the HRA tenants sheltered care units and extra care facilities. This is a cross council project that will provide cost and care quality benefits for tenants.

6. HRA 30 YEARS BUSINESS PLAN KEY HEADLINES

6.1 Five Year Budget

6.1.1 The budget is presented in an alternative manner in the Business Plan see table 3 but is based on the 2024-25 Budget outlined above.

Description	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Dwelling rents	85,422,000	91,568,496	93,625,929	95,386,792	97,102,300	99,043,860
Non-dwelling rents	1,008,000	1,010,223	1,035,479	1,056,188	1,077,312	1,098,858
Service charge income	6,679,000	7,035,279	7,211,161	7,355,384	7,502,492	7,652,542
Other income and contributions	2,979,000	3,122,127	3,200,180	3,264,184	3,329,467	3,396,057
Total income	96,088,000	102,736,125	105,072,748	107,062,548	109,011,571	111,191,317
Repairs & maintenance	23,448,000	27,950,337	28,578,547	23,674,439	24,093,518	24,575,629
Management (incl RRT)	30,990,000	35,778,293	36,672,750	35,315,205	36,021,509	36,741,940
Bad debts	750,000	750,856	767,621	782,071	796,074	812,107
Dwelling Depreciation	14,729,000	14,729,000	15,094,175	15,393,619	15,699,051	16,010,592
Debt management	162,000	166,000	170,150	173,553	177,024	180,565
Total costs	70,079,000	79,374,486	81,283,244	75,338,887	76,787,176	78,320,832
Net income from services	26,009,000	23,361,638	23,789,505	31,723,662	32,224,395	32,870,485
Interest payable	(12,231,000)	(12,237,402)	(12,489,732)	(14,876,130)	(16,769,739)	(18,137,187)
Net income/expenditure before appropriations	13,778,000	11,124,236	11,299,772	16,847,532	15,454,656	14,733,298
Revenue contributions to capital	(13,778,000)	(12,196,493)	(11,299,772)	(16,652,782)	(15,256,011)	
Allocation of reserves to capital	(4,736,890)	(22,412,151)	(24,035,268)	0	0	
Net HRA Surplus/Deficit	(4,736,890)	(23,484,408)	(24,035,268)	194,749	198,645	14,733,298
HRA Balance brought forward	62,035,368	57,298,478	33,814,070	9,778,802	9,973,552	10,172,197
HRA surplus/(deficit)	(4,736,890)	(23,484,408)	(24,035,268)	194,749	198,645	14,733,298
HRA Balance carried forward	57,298,478	33,814,070	9,778,802	9,973,552	10,172,197	24,905,495

*RRT – Rent, Rates and Taxes

6.1.2 Interest payable remains at the current levels as the funding of the capital programmes is met from the use of existing HRA Reserves of £57m in the first instance. There is no intention to borrow but to use existing reserves. The rationale for this approach is due to the current higher interest rates. The cost of borrowing even utilising the preferential HRA Public Works Loan Board (PWLb) rates remains high in the region of 5%.

6.2 Financial Viability

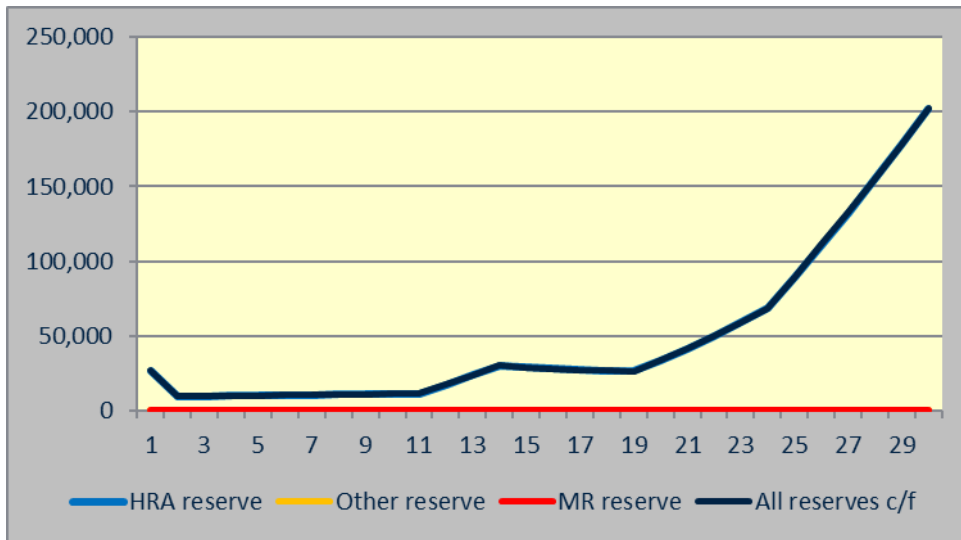
6.2.1 This report sets out a financially viable 30 Year Business Plan. It reflects a number of assumptions set out above and will require updating once the results of the extensive stock condition surveys are known and the Asset Management Strategy has been developed.

6.2.2 A minimum balance of £9.5m within reserves (annually inflated) has been assumed for the Business Plan. The assumption allows for the equivalent of 1.55 months of

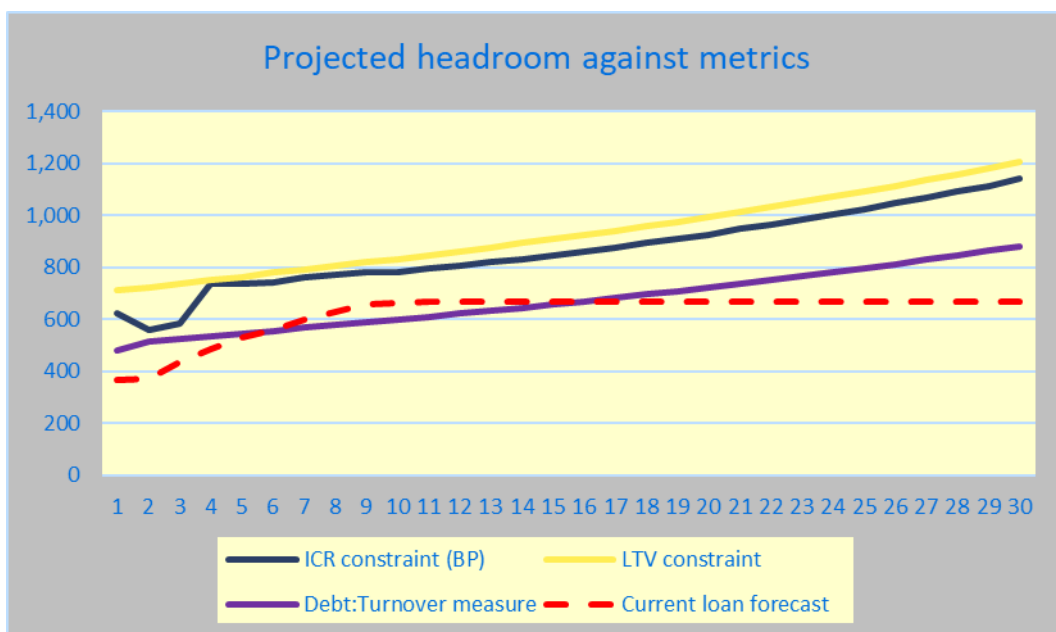
expenditure. A benchmark of other authorities shows an average of 1.5 months expenditure in reserves.

6.2.3 Chart 1 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£202m over 30 years.

Chart 1 – Projected HRA Balances



6.2.4 The opening CFR (Capital Finance Requirement) is £365m of which £333m is funded from borrowing. Additional borrowing will be required with borrowing peaking in year 11 at £669m from the opening £365m. This is within the projected headroom for the HRA and is demonstrated in Chart 2 & the code identifiers.



	Ratio	Values	Meaning
ICR	<i>Interest Rate Cover</i>	@ min 1.25	ratio of operating surplus divided by interest costs
LTV	<i>Loan to Value</i>	@ max 65%	debt to properties
Debt:T/Over	Debt to Turnover	@ max 5:0	

6.3 Summary

This report sets out the latest position in the 30-year HRA Business Plan and identifies some pressures on the plan.

Growth of 33% in the responsive repairs budget is proposed (4.3.1) to fund an increase in repairs demand caused by a number of factors. These include:

- A historical underinvestment in the Council's housing stock including insufficient growth in responsive repair budgets over several years.
- An increase in the reporting of damp and mould following the publicity caused by the tragic death of Iskak Awaab in Rochdale of respiratory disease caused by damp and mould in his home.
- An increase in Legal Disrepair claims in part caused by the above.

Following the fire at Grenfell Tower in 2017 boroughs like Croydon are required to be compliant with the Building Safety Act. Whilst the initial costs relating to surveys and development of Building Safety cases are included in the 2023/24 budgets, the results of surveys will require a more developed Capital Programme to be developed in Summer 2024. This increase in the programme, once established, will inform a later iteration of the HRA Business Plan to follow in 2024.

This HRA Business Plan has more focus on the first five years where there is more certainty on costs, demands and pressures and demonstrates that these investment proposals are fundable, subject to the assumptions within the plan, and that the HRA remains sustainable and viable over the 30 years period.

The budget has been set with the most accurate data available reflecting the significant pressures on repairs and maintenance costs. To manage these budgets monthly monitoring through the financial performance reporting will be carried out and reported. If required a reprofiling of budgets will be made. A full budget review will be carried out following the outcomes of the Asset Management Strategy due to Cabinet in summer 2024.

7. ALTERNATIVE OPTIONS CONSIDERED

7.1 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.

7.2 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.

8. CONSULTATION

- 8.1 A Tenants Survey was launched on 6 November 2023. The survey requested respondents to prioritise services that matter most to them. The survey closed on 15 December 2023 with over 830 responses received. Tenants have been clear they want to see improvements to services provided and have prioritised repairs and planned maintenance, action to tackle anti-social behaviour, greater emphasis on caretaking functions, improvement to grounds maintenance and tackling parking violations on estates.

7. CONTRIBUTION TO COUNCIL PRIORITIES

- 7.1 The HRA Business Plan and Budget Update 2024-25 report supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services."
- 7.2 The report also supports the Council to achieve outcome four of the Mayor's Business Plan 2022-26 to "Invest in council homes to drive up standards and develop a more responsive and effective housing service."

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

- 8.1.1 This report sets out the proposed 2024-25 Housing Revenue Account (HRA) revenue budget, planned five years revenue budget for 2024-29 and the planned capital budget for 2024-29. These are based on the current 30 years Business Plan which will be updated next year based on enhanced stock conditions surveys which are underway.
- 8.1.2 The capital budget determines potential borrowing requirements and prudential borrowing indicators as part of the Council's Medium Term Financial Strategy and Treasury Management Strategy. There is no new borrowing planned for 2024-25, with HRA reserves being used to fund capital expenditure which isn't funded through other sources of external funding.
- 8.1.3 The HRA is currently under-borrowed when compared to the liability benchmark, owing to historic under-investment in the housing stock. As investment is increased over the coming years, it will be important to monitor the level of HRA reserves and continued adherence to the prudential code liability benchmark.

Comments approved by Allister Bannin, Director of Finance (Deputy s151), 18/01/2024.

8.2 LEGAL IMPLICATIONS

- 8.2.1** 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.
- 8.2.2** 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.
- 8.2.3** 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.

Comments approved by Sandra Herbert, Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 15/12/2023)

8.3 EQUALITIES IMPLICATIONS

- 8.3.1** Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the 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.
- 8.3.2** Section 149 of the Act requires public bodies to have due regard to the need to:
- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
 - Foster good relations between people who share a protected characteristic and people who do not share it.
- 8.3.3** An initial Equality Analysis has been undertaken which shows that the work proposed could have some potential negative impact on some of the protected

groups. It also shows that the service is putting in place measures to mitigate against the potential negative impact.

Comments approved Naseer Ahmad on behalf of the Equality Programme Manager, 17/01/2024.

9. APPENDICES

A. HRA 30 Year Business Plan

B. Savills Report

C. HRA Capital Programme of Major Works

D. Equality analysis form - HRA Business Plan 2024-25