Report to Communities Scrutiny Committee

***Date of meeting:* 16th January 2023**

Portfolio: Housing and Property (Cllr Holly Whitbread)

Subject: HRA Business Plan

Officer contact for further information: Surjit Balu, Interim Director of Housing and Property

Democratic Services Officer: Laura Kirman

Appendix A - Why undertake a Council housebuilding programme
Appendix B - Equality Assessment
Appendix C - Frequently Asked Questions

Recommendations/Decisions Required

(1) That Committee note the Safe and Prudent HRA business plan
(2) Comments and recommends to Cabinet for approval
(3) That Committee receives a yearly performance update. Which will include stringent stress testing.
(4) That Committee note the opportunity to improve our estates which will improve the life span of our assets and feed into our ongoing work to 'create great places where people want to live'

Executive Summary:

The HRA business plan has been developed in partnership with the Council's Finance Team and our retained consultant Abovo-Consult. A report on the HRA Business Plan was previously presented to the Overview and Scrutiny on 27th January 2022. A bespoke HRA model is used which enables us to provide a reasonable cashflow projection of the next 30 years. It is based on evidential data from the Council's current systems, a new independent stock condition survey provided by Ridge & Partners and projections for economic assumptions in the social housing sector Furthermore, the plan gives us the ability to stress test. This is vital given key dynamic risks such as the borrowing rate and changes in Government legislation regarding Social Housing.

Officers have taken both a safe and prudent approach when developing the business plan, with a balance between borrowing, developing, and improving the housing stock. The agreed minimum £2m revenue working capital balance is maintained throughout the plan.

All costs have been included in the plan, however some potential income has not been included because at present it cannot be quantified. Examples of this include the ransom strip leading to Parkland and other similar pieces of land in the ownership of the HRA.

The Plan can be amended and updated year on year and during the year, to respond to changes, therefore maintaining a safe and prudent approach.

Context

The abolition of the cap on Housing Revenue Account (HRA) borrowing in the 2018 Autumn Budget has raised a whole range of questions.

What is a realistic and achievable target for local councils to contribute to the development of new affordable housing? What does a sensible and proportionate borrowing strategy look like for the HRA? How do stock holding councils go about setting their own borrowing capacity limits now that the government is not doing it for them?

The HRA does not have a balance sheet of its own (forms part of the Council one) and the value of fixed assets is not based on cost, it is based on existing use value and can be revalued on a regular basis. The business plan makes an estimate of how this might change over time based on the current valuation and new development added. The amount of debt held by the HRA does not relate to the property in the HRA as the majority of the current debt figure was allocated in 2012 as part of self-financing. The self-financing debt settlement figure was calculated based on the net present value of the income and expenditure assumed to the HRA over 30 years to give a level of borrowing that the Government estimated the Council could afford to service via the HRA revenue. It has not been built up from borrowing to buy property.

As there is no longer a debt cap, if there is sufficient revenue to service the loans, and loans can be refinanced if required, then prudential borrowing is allowed without limit. Currently, there is no maximum debt level set by the Council.

The delivery of a sustainable HRA business sets out not only to set the scene for capital expenditure during the period, which in this case is 30 years.

Background

As we move towards our commitment of reaching Net Zero and creating ‘Place’ an emphasis on developing a clear and achievable business plan is required to ensure we can meet our commitments. This is against a backdrop of increasingly challenging budgets and pressures on local councils to drive down costs and improve efficiency. In 2015 the government introduced a 1% reduction in rent each year for 4 years. This would eventually lead to a 12% real term reduction in average rents by 2020/21. This was during a period where Housing Associations in particular, were making large surpluses.

Whilst Central Government returned to allowing increases in social and affordable rents by CPI + 1% for a period of 5 years from April 2020, the global pandemic, together with the Worldwide effects of war in the Ukraine saw inflation rise to 10.1% in September 2022. As a measure to manage the country’s finances and lessen the impact on the cost of benefits, the Chancellors’ Autumn Statement of November 2022 imposed a maximum increase in social and affordable General Needs rents of 7%. Whilst Supported Housing rents were not restricted, the Council took the decision to raise all rents by 7% in 2023-24.

In addition to the restriction on social rents, the Government maintained a freeze on the Local Housing Allowance (LHA) rates for a further year in 2023-24. This would not normally have an impact on Council rents, however, the Council’s policy is to charge new affordable rents at the lower of 80% of the market rent or the relevant LHA rate. Where in future years, an existing tenant’s affordable rent would exceed the LHA rate by virtue of the annual rent increase in April, the rent is capped at the LHA rate. This policy has meant that some tenants’ rents have not risen at all annually, and more affordable rents have been limited by the LHA rate as a result of the 7% increase in 2023-24. Many of these properties will be the newer stock in Epping Forest.

In the Autumn Statement in November 2023, the Chancellor announced that from April 2024, LHA rates would be allowed to rise. The new rates have not yet been announced as the calculation is one which involve “re-pegging” the rate to the 30th percentile of local rents. It would also seem that this is likely to be a one year rise with the potential to fix again from

April 2025.

The five year period for the current Rent Regime agreed in 2020, comes to an end in March 2025. The Autumn Statement in November 2023 was silent on the social rent increase for 2024-25 and DLUHC and the Regulator (RSH) have confirmed that the maximum increase on rents in 2024-25 is CPI + 1%, based on September 2023 CPI of 6.7%, giving a maximum increase of 7.7%.

Going forwards, for rents beyond April 2025, there will need to be a period of Government consultation and the prudent view of the sector is to use CPI increases only, until it is clear what the intention is. Any change in Government will also affect the social housing rent discussions.

The council, during the first couple of years of rent reduction were able to absorb costs, as such did not make any significant changes to services. Subsequently a decision was made to stretch the life cycles of both the internal components and the block replacement/ upgrade programme.

As a measure to manage the reduction in rents from April 2016, the Council chose to extend the life cycle of components within properties and replace them over a longer period. The reduction was only ever going to be a temporary measure, the delays in spend on the housing stock would need to be made up during subsequent years. Delayed lifecycle replacement usually leads to disproportionate levels of responsive repairs, whilst still leaving the need to invest in full replacement. During this period the council house building continued, this had a positive impact on the HRA account. The number of suitable areas to develop efficiently is now limited and the cost of building works has increase significantly as a result of the global impact on inflation and available materials and labour.

What is 'decent home standard'?

The Government believes everyone should have the opportunity to have a decent home. This means it should be warm and weatherproof with reasonably modern facilities and that each are a key element of any thriving, sustainable community. To help achieve this, it introduced the "decent homes" standard to help social housing providers improve the conditions of their homes. For a property to be labelled a decent home it must meet certain criteria. It has nothing to do with location, floor level or size. Instead, it focuses on the health and wellbeing of the people who live in them.

The detail around the decent home standard is complicated and relates to several criteria. In simple terms it is a nationally recognised standard which all social housing providers use when assessing and planning for upgrades to housing stock.

The allowances for expenditure within in the self-financing settlement in 2012 were based upon the Decent Home Standard at that time. Since then issues such as cladding and Net Zero Carbon have been introduced which stretch the resources of the HRA. Income in the HRA continues to be limited by Government guidance via the Regulator of Social Housing.

Council Housing Building

The Epping Forest District Council HRA includes a Council house building programme.

Members agreed to begin a development programme, following a paper which was presented to Scrutiny Committee on 25th October 2011. This included a discussion around what the benefits are in building inhouse. As such, Committee noted the advantages in both financial terms and in terms of maintaining control of and developing our stock, therefore providing the best possible service for residents.

The initial programme was based around a significant number of garage sites. In 2019 a further review of sites was undertaken with a corresponding feasibility study which included a financial appraisal. At this point officers purchased ProVal (a tool used to appraise development schemes using cashflows over time) and started to use a baseline target of 3.2% for the return over 30 years, this was prudent as it made sure that any future council house building was going to add value to the business plan.

Whilst the return on individual development scheme appraisals is a strong indicator of the ability of the cashflows to repay over time, it is equally important to test the schemes within the business plan as a whole. The combination of the requirements of the existing stock investment together with borrowing to build now to receive future rentals must be affordable. There should also be sufficient capacity in the workforce to deliver once borrowing has taken place.

During 2020/21 Phase 5 of the development programme was presented to Council House Building Cabinet Committee. This included a move towards driving further efficiency, by prioritising sites which produced a higher NPV, therefore benefiting the business plan financially.

Major Works

It is well understood that properties have a finite life cycle. To maximise the life span of our blocks, it is vital that we carry out regular improvement works. The process of improving properties is worked out using life cycles, there is an industry average for all components for buildings.

Our residential assets are reaching the point where major investment is required. Choosing not to invest would lead to a situation where the asset could become dangerous and losses in income through increased voids. Furthermore, it will lead to a disintegration of quality of life for our residents.

Stock condition survey – Capital replacements

In 2022, the Council took the decision to engage Ridge and Partners to undertake a 50% sample survey of the housing stock to determine the true picture of investment required. A 50% sample is a substantial test and the results are cloned to represent the whole stock. The results of the survey were provided in Autumn 2023 and provide the cashflow for expenditure on capital investment in the existing stock.

Prior to this, EFDC had not carried out a stock condition survey for 10 years, although some information was available and for 2022-23 and 2023-24 the data allowed us to prepare a medium-term financial plan. This covers both the planned works and capital investment required in our stock.

The business plan for 2024-25 includes the results of the new stock condition survey.

To further improve our data and understanding of the Council's housing stock, Ridge and Partners have again been engaged to carry out stock condition surveys for a proportion of stock that was not previously surveyed. The intention is for work to commence in the new financial year April 2024 and, this will be carried out using learning and data to help the council to prioritise stock/areas for surveying. The aim is to increase the amount of properties being surveyed and so, improve confidence levels for investment decisions.

Asset Management Strategy

Following a quality-led procurement process, the Council has appointed a specialist Consultancy to assist us with the development of our housing asset management strategy.

The asset management strategy will enable EFDC to target resources so they achieve the best long-term outcomes for our tenants and leaseholders. As well as being financially viable, we want the homes EFDC provide to be places people want to live and want to stay.

The strategy is being *co-created* and involves engagement with our tenants. This will ensure that, through consultation, the strategy will appreciate EFDC's current position, our capabilities, and our aspirations for the homes we provide. By also including stakeholders in the strategy development, it will create the buy-in and traction needed to achieve the objectives of the strategy.

Sector Risk Profile

This year's Sector Risk Profile focuses on the Regulatory Standards, particularly the risks on delivering the outcomes required of the economic standards. The Social Housing (Regulation) Act has given the Regulator greater powers to set consumer standards and proactively regulate these from April 2024.

Key areas of focus within the sector risk profile include:

- Strategic Direction
  - Setting of clear strategic direction and priorities
  - Delivering quality services to tenants
  - Value for money
  - Performance and scrutiny

- Macroeconomic risk and viability
  - Noting difficult and uncertain economic environment
  - Mitigation plans to ensure continued delivery of strategic objectives

- Stock decency
  - Regulator has greater powers to ensure providers are providing homes that are decent, safe and well-maintained, and that tenants receive quality landlord services and are treated with fairness and respect.

- Tenant safety
  - Keeping tenants safe is a fundamental responsibility for any landlord. Providers must ensure that they comply with all statutory health and safety legislation. The regulator's review of damp and mould following the tragic death of Awaab Ishak highlighted the importance of providers holding accurate, up-to-date, and robust stock data in ensuring tenant safety. Providers must ensure that risks to tenant safety are identified and mitigated, including stock surveys that are sufficiently robust

- Service delivery and accountability
  - The provision of good quality housing services to their tenants is core to the role of a provider. Providers need to ensure that strong governance is in place to oversee service delivery and maintain compliance with consumer standards. In particular, they must ensure that the organisation has robust and accurate data on performance, including tenant satisfaction measure data for 2023/24.

In summary, the sector is facing increased regulation and scrutiny, and the Regulator for Social Housing will begin an inspection regime from April 2024 for social landlords. The importance to invest in Council stock and make well informed decisions is more important than ever.

A link to the sector risk profile is as below:
Sector risk profile 2023 (accessible version) - GOV.UK (www.gov.uk)

Report

Epping Forest DC Current HRA BP Assumptions (November 2023)

1. CPI and RPI Rates

The underlying economic assumption of increases for CPI and RPI for future years are set at the same rates within the model. Where assumptions of income or cost are assumed to vary from these, real additions or increases are added and explained in the notes below.

Global Assumptions

CPI

From Year		%
2	01-Apr-24	6.70%
3	01-Apr-25	2.00%
4	01-Apr-26	2.00%

2. Stock and Rent

Opening stock on 1 April 2023 for the HRA included 6,383 dwellings excluding guest rooms and warden accompt / offices and Norway House. There were 196 Affordable Rented and 6,187 Social Rented dwellings.

HRA Business Plan | Epping Forest DC HRA

Stock Assumptions

Import Stock & Rents

Stock Description	Affordable Rent Bedsit	Affordable Rent One Bed	Affordable Rent Two Bed	Affordable Rent Three Bed	Affordable Rent Four Bed	Social Rent Bedsit	Social Rent One Bed	Social Rent Two Bed	Social Rent Three Bed	Social Rent Four Bed	Social Rent Five Bed	Social Rent Six+ Bed	Supported Bedsit	Supported One Bed	Supported Two Bed	Supported Three Bed	Hostel
Tenure Type	Affordable Rent	Affordable Rent	Affordable Rent	Affordable Rent	Affordable Rent	Social Rent	Social Rent	Social Rent	Social Rent	Social Rent	Social Rent	Social Rent	Supported	Supported	Social Rent	Social Rent	Supported
Repairs & Maintenance Archetype	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock	Main Stock
Opening Stock Numbers	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units
Current Stock Numbers	0	32	81	82	1	220	1,785	1,709	1,791	142	2	0	85	429	16	0	8

The 52-week average rent per unit type per week on a 52-week basis is shown below. Rents are currently allowed to rise by a maximum of CPI + 1% until April 2024 and then the expectation is that rents will be limited to CPI increases only.

Rent Assumptions	Affordable Rent Bedsit £ / unit / wk	Affordable Rent One Bed £ / unit / wk	Affordable Rent Two Bed £ / unit / wk	Affordable Rent Three Bed £ / unit / wk	Affordable Rent Four Bed £ / unit / wk	Social Rent Bedsit £ / unit / wk	Social Rent One Bed £ / unit / wk	Social Rent Two Bed £ / unit / wk	Social Rent Three Bed £ / unit / wk	Social Rent Four Bed £ / unit / wk	Social Rent Five Bed £ / unit / wk	Social Rent Six+ Bed £ / unit / wk	Supported Bedsit £ / unit / wk	Supported One Bed £ / unit / wk	Supported Two Bed £ / unit / wk	Supported Three Bed £ / unit / wk	Hostel £ / unit / wk
Current Average Rent	£0.00	£176.50	£223.38	£265.23	£322.19	£86.16	£97.21	£111.61	£127.04	£141.31	£152.99	£0.00	£88.99	£97.44	£116.52		£103.55
New Letting Average Rent	£0.00	£176.50	£223.38	£265.23	£322.19	£90.93	£102.69	£118.53	£140.34	£154.31	£161.35	£0.00	£94.91	£103.77	£125.35		£103.55

It should be noted that 2024-25 is what is known as a “53 week year” in that there are 53 rent collection days (Mondays) and the tenant is charged at the same rate for the 53rd week as the rest of the year. This phenomenon occurs once every 5 or 6 years and it is entirely coincidental that 2024 is a leap year – this does not effect the number of Mondays in a year.

Epping Forest DC has a policy which limits the setting and the future increase of Affordable Rented property to the Local Housing Allowance (LHA). It was expected that LHA rates will be frozen until April 2025, however, the Government are allowing the rates to increase in 2024-25. At this time the LHA rates are unknown, so for prudence, the business plan assumes that the rates will be fixed at least for a further year, then will rise by CPI. This means that in the plan, Affordable Rents are expected to rise by less than the maximum allowed if they reach the imposed limit. The affordable 4 bed properties for example would not increase in rent at all and the other affordable rents would rise by an average of 3% overall rather than 7.7%.

3. Voids and Bad Debt Rates

Void loss is assumed to be 1.4% of the Council's social and affordable dwelling rent per annum. For Norway House this is assumed to be 50% per annum.

Bad debts are assumed to be 0.26% of the rental income which in 2024-25 is the equivalent of around £109k.

4. Development Schemes

The following development schemes are included in the plan:

HRA Business Plan | Epping Forest DC HRA
Development Schemes

Summary of Inputs

Scheme Names	New Build Units Developed Units	Acquisition Units Developed Units	**Total Units Developed Units**	Scheme Costs £	Sales Receipts £	External Grant £	Use of RTB 141 Receipts - Capital £
4.3 Pick Hill (Waltham Abbey)	0	0	**0**	0	0	0	0
4.3 Pentlow Way (Buckhurst Hill)	7	0	**7**	-999,038	0	0	399,615
4.3 Woollard Street (Waltham Abbey)	8	0	**8**	-596,140	0	0	238,456
4.4 Chequers Road Site B (Loughton)	8	0	**8**	-3,217,810	0	0	1,287,124
4.4 Ladyfields (Loughton)	16	0	**16**	-4,513,919	0	0	1,805,568
	0	0	**0**	0	0	0	0
Ph 5 Beechfield (B)	0	0	**0**	0	0	0	0
Ph 5 Burney Drive	2	0	**2**	-604,161	0	0	241,664
Ph 5 Castell Road	4	0	**4**	-1,306,569	0	0	522,628
Ph 5 Fairfield/Millbank	0	0	**0**	0	0	0	0
Ph 5 Hornbeam Close Site A (Buckhurst Hill)	0	0	**0**	0	0	0	0
Ph 5 Hyde Mead (Nazeing)	0	0	**0**	0	0	0	0
Ph 5 Pyrles Lane A (Loughton)	0	0	**0**	0	0	0	0
Ph 5 Pyrles Lane B (Loughton)	0	0	**0**	0	0	0	0
Ph 5 St Peters Avenue, Shelly, Ongar	23	0	**23**	-11,800,000	0	6,100,000	0
Ph 5 Parking / EV points	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
Qualis Acquisitions	60	0	**60**	-16,044,549	0	60,000	6,150,870
	0	0	**0**	0	0	0	0
Mason Close	10	0	**10**	-2,650,328	0	0	1,060,131
Valley Hill	8	0	**8**	-1,889,780	0	0	755,912
Princess of Wales site	15	0	**15**	-5,500,000	0	0	2,200,000
LAHF Units	0	2	**2**	-529,000	0	268,100	0
Give away 1-4-1	0	0	**0**	0	0	0	0
24 Western Avenue = purchase	0	1	**1**	-725,000	0	0	290,000
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
	0	0	**0**	0	0	0	0
Unidentified	0	0	**0**	0	0	0	0
Total	**161**	**3**	**164**	**-50,376,294**	**0**	**6,428,100**	**14,951,968**

Most of the schemes are being funded from reserves of RTB 1-4-1 receipts that would need to be repaid if not used. The interest rate on returning receipt after 5 years is 4% above the Bank of England base rate. The current base rate is 5.25% which would give rise to interest repayments based on 9.25% per annum at present.

RTB 1-4-1 receipts have been assumed for all identifiable schemes to the point at which the current estimate of receipts brought forward and generated are used up. Thereafter, where there are no schemes, the Council may seek to find another developing RP and give the receipts to that development, usually in return for equivalent nomination rights.

From 1 April 2021, the proportion of a scheme funded by 1-4-1 receipts was increased from 30% to 40%. The Council now have 5 years to spend the receipts rather than 3 as per the former arrangement. The receipts can also now be used to fund the development of shared ownership and First Homes as well as social and affordable rented properties. There is a limit from April 2022 on the number of "acquisitions" per annum that can be funded from 1-4-1 receipts to ensure that the receipts fund new development by the Council. This is no less than 20 per year. "Acquisitions" are expected to include the purchase of street properties, former RTB's and purchases of new build on developments that are not on the Council's land – this would include S106 purchases for example or purchasing of newly built properties on a developer's market sale site.

Based on the estimate of RTB sales for future years, the estimated sales and discount values and the Council's requirement to pool (pay over to Government) a share of the receipts, the table below sets out the expected generation and use of the 1-4-1 receipts in the plan. This is the proportion of the receipt that can only be used for new development / acquisition of property. It is only generated when the Council has received enough receipts to cover its liabilities to pay to Government and to compensate the business plan for the loss of income through excess sales.

In March 2023, the Government allowed Councils to keep all of the receipts generated from RTB sales in the year 2022-23, rather than asking for the Treasury Share to be pooled (paid to HM Treasury). At the same time, they also allowed the same provision for 2023-24. This was designed to help Council's deliver more homes, but only likely to cover the additional costs of building arising from inflation. This amounted to £688k in additional receipts being retained in 2022-23, and subject to the number of sales in 2023-24 would be the same again this year.

However, the ability to retain the receipts does come with restrictions. The receipts not pooled as the Treasury Share must be used in the same way as the RTB 1-4-1 receipts and returned within 5 years (plus interest) if not used. They can only be used for development and again up to 40% of a scheme and cannot be combined with other Government grant funding.

The table shows the opening balance of £14.564 m at 1 April 2023, the new receipts, and the subsequent use for development. As there is only development in the plan assumed for 5 years so far, the plan shows that receipts generated from year 6 would be repaid to the Government with interest from year 11.

RTB Balances

					RTB Receipts for Replacement Homes						
Year	Year	Opening Balance £'000	New RTB 141 Receipts £'000	Treasury Share £'000	RTB 141 Receipts used for Dvpt £'000	RTB 141 Receipts given to another RP £'000	RTB Receipts Repaid £'000	**Closing Balance £'000**	Interest £'000	Interest Paid to Gov £'000	Closing Balance Check
1	2023/24	14,564	0	688	-3,673	0	0	**11,579**	618	0	**OK**
2	2024/25	11,579	115	0	-4,526	0	0	**7,168**	403	0	**OK**
3	2025/26	7,168	360	0	-4,461	0	0	**3,067**	148	0	**OK**
4	2026/27	3,067	389	0	-1,272	0	0	**2,184**	60	0	**OK**
5	2027/28	2,184	418	0	-1,020	0	0	**1,581**	43	0	**OK**
6	2028/29	1,581	447	0	0	0	-301	**1,728**	38	-127	**OK**
7	2029/30	1,728	477	0	0	0	-115	**2,090**	44	-46	**OK**
8	2030/31	2,090	507	0	0	0	-360	**2,237**	50	-145	**OK**
9	2031/32	2,237	537	0	0	0	-389	**2,385**	53	-156	**OK**
10	2032/33	2,385	568	0	0	0	-418	**2,535**	57	-168	**OK**
11	2033/34	2,535	598	0	0	0	-447	**2,686**	60	-180	**OK**
12	2034/35	2,686	630	0	0	0	-477	**2,839**	64	-192	**OK**
13	2035/36	2,839	661	0	0	0	-507	**2,994**	67	-204	**OK**
14	2036/37	2,994	693	0	0	0	-537	**3,149**	71	-216	**OK**
15	2037/38	3,149	725	0	0	0	-568	**3,307**	74	-228	**OK**
16	2038/39	3,307	757	0	0	0	-598	**3,466**	78	-241	**OK**
17	2039/40	3,466	790	0	0	0	-630	**3,627**	82	-253	**OK**
18	2040/41	3,627	823	0	0	0	-661	**3,789**	85	-266	**OK**
19	2041/42	3,789	857	0	0	0	-693	**3,953**	89	-279	**OK**
20	2042/43	3,953	0	0	0	0	-725	**3,228**	83	-292	**OK**
21	2043/44	3,228	0	0	0	0	-757	**2,470**	66	-305	**OK**
22	2044/45	2,470	0	0	0	0	-790	**1,680**	48	-318	**OK**
23	2045/46	1,680	0	0	0	0	-823	**857**	29	-331	**OK**
24	2046/47	857	0	0	0	0	-857	**0**	10	-345	**OK**

The Council will over time identify further development schemes to add into the plan to utilise the receipts. The receipts forecast at current rates would require a scheme of around £1.25 million per year – with 60% of that being funded by additional borrowing.

The receipts are not grant and will only be available if properties continue to sell via RTB, which also has the effect of reducing the existing stock. It would not be prudent to assume schemes too far into the future so as not to raise expectations.

5. Other Income

Other income in 2023-24 consists of:

Income	Amount
Non-Dwelling Rent	£31k
Garages	£905k
Service Charges	£2.793 m
Contribution from GF	£383k
Total	£4.112 m

Income from 2024-25 onwards is assumed to maintain the current budgets and most charges are assumed to rise by CPI/RPI only going forwards. Contributions from the General Fund are largely to support functions that are related to salary costs and therefore in 2024-25 are limited to a 3% rise rather than 6.7% (CPI/RPI).

Capital receipts, which may only be used to fund the capital programme and not revenue include the sale of land at Acres Avenue in 2023-24 of £230k, and at Lower Alderton of £450k. There are also grants for LAHF property purchases and refurbishment of £188k.

If the General Fund considers that it needs to use capital receipts from the sale of HRA land or appropriates assets from the HRA to sell, it would need to make a compensating reduction to the value of HRA debt to reflect the loss of the asset.

Management Costs (excluding Repairs and Maintenance Revenue Costs)

Management Costs for 2023-24 include:

Cost	Staffing	Non-Staffing	Total
Supervision & Management General	£3.878m	£5.012m	£8.890m
Service Costs (S&M Special)	£0.281m	£0.503m	£0.784m
Community Centres (S&M Special)	£0.001m	£0.083m	£0.084m
Grounds Maintenance (S&M Special)	£0.014m	£1.647m	£1.661m
Elderly Services (S&M Special)	£0.528m	£1.474m	£2.002m
Homelessness (S& M Special) incl. Norway House	£0.352m	£0.187m	£0.539m
Rents, Rates & Other	-	£0.645m	£0.645m
Leaseholders	-	£0.336m	£0.336m
Total	**£5.054m**	**£9.887m**	**£14.941m**

Staffing costs are assumed to rise by 3% in 2024-25 and thereafter by 2%.

Non-staffing costs are assumed to rise by 3.5% in 2024-25 and then 2% thereafter (CPI/RPI).

Housing Asset Management (HAM) Project costs of £230k in 2023-24 will reduce to £85k in 2024-25, then stop. Every 3 years from 2025-26, £231k is included for keeping the stock condition survey up to date via independent sampling.

In addition, from 24-25 onwards net savings on non-staffing budgets have been included totalling £274k.

6. Repairs & Maintenance

The budget for day-today responsive, void, and cyclical works carried out mainly by Qualis is £10.585 million (approx. £1,639 per unit) for 2023-24.

The breakdown of this includes:

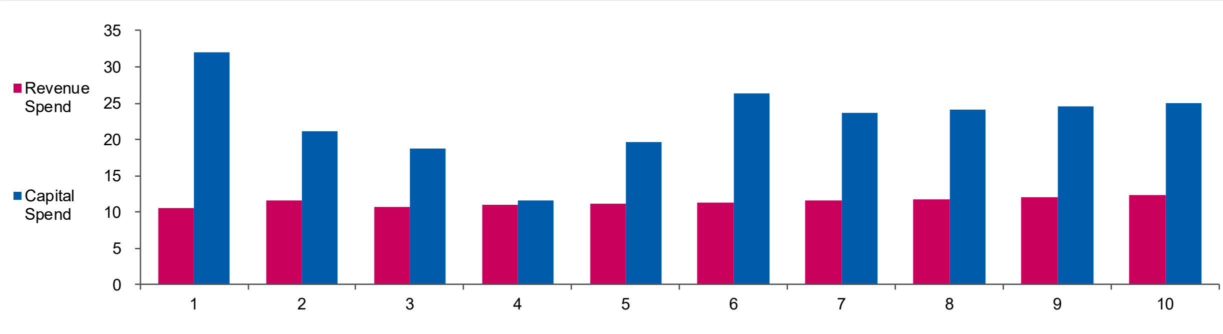
- Revenue maintenance works via Qualis £9.377m
- Annual electrical testing £1.050m
- Inspection of water tanks £0.105m
- Inspection of asbestos £0.053m

Total £10.585m

An additional £271k is added in 2024-25 to Qualis repairs budget, but a target to reduce the Qualis repairs budget by £974k (at today's prices) is still included from 2025-26 onwards. This should aim to align with a programme of works based on the stock condition survey. Repairs and maintenance costs are assumed by CPI/RPI in all years. This gives an average spend per unit for 2024-25 of £1,793.

Summary Per Unit of Repairs

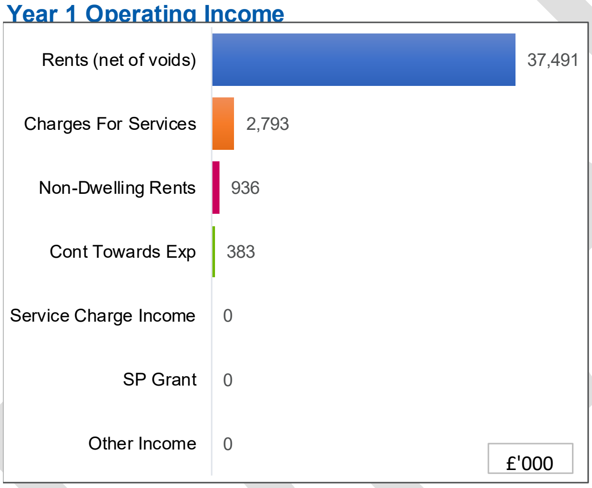
Revenue / Capital Repairs



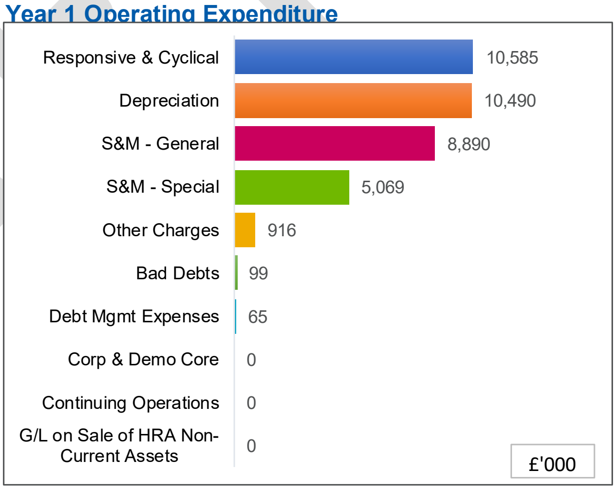
Year	1	2	3	4	5	6	7	8	9	10
Revenue	1,639	1,793	1,647	1,681	1,705	1,733	1,771	1,810	1,849	1,890
Capital	4,949	3,263	2,878	1,778	2,987	4,036	3,618	3,694	3,772	3,856

Operating Income and Expenditure Summary

Year 1 Operating Income



Year 1 Operating Expenditure



7. Capital Works

The capital programme for 2023-24 reflects the estimated outturn position predicted against the budget set for the year. The programme for this year includes £5.981m of works estimated to be carried out on the Limes Avenue and Copperfield estates. These works were identified as urgently required and should be completed this year. The total expected spend on major works (excluding new build development and non-stock related capital spend) is £31.996m

To give the Council more comfort over the value of works that are required to the existing stock and to aid the accurate population of the new Housing Asset Management system, Ridge and Partners were instructed in 2022 to undertake a substantial sample survey. 50% of the properties were surveyed to establish their condition and to forecast over 30 years a profile of expenditure that should be future-proofed. The data is cloned initially to reflect the entire stock and will be used to put together an asset management programme for procuring works in an efficient manner. The cost of the update surveys every 3 years thereafter is included in management costs.

The survey was undertaken and Ridge's report was prepared in accordance with the direction, recommendations and intent of the following guides:

- Collecting, Managing and Using Housing Stock Condition Information – A Good Practice Guide, DETR 2000;
- Housing Transfer Manual, DLUHC;
- Stock Condition Surveys, second edition, RICS;
- A Decent Home- The definition and guidance for implementation, June 2006; and
- HHSRS Operating Guidance, ODPM February 2006.

The commission required Ridge to provide and updated 30 year re-investment profile showing

- A whole stock cost analysis, by category of expenditure (survey plus desktop);
- Indicative Housing Health and Safety Rating System (HHSRS) data; and
- A Decent Homes analysis.

The Executive Summary states that
"*The survey has identified that the housing stock is in a reasonable state of repair, but in need of re-investment. The stock requires continued expenditure over a 30 year planning term in order to maintain all properties up to a good, tenantable standard."*

On completion of the survey and extrapolated results, the report showed that a total of £329,427,876 is required to be spent over 30 years, which is the equivalent of £1,711 per unit per annum. The costs are based at third quarter 2022, and Ridge have advised that the costs should be uplifted by 5.75%. This means that at 2023-24 prices, the total cost is £348,364,374 over 30 years or £1,809 per unit.

The summary of the works including the 5.75% inflationary uplift is as follows:

Reporting Category	Total Cost years 1 - 30	Average Cost Per Unit 30 Years	Average Cost Per Unit Per Annum
Future Major Works	£315,503,815	£49,151	£1,639
Improvements	£6,961,798	£1,085	£36
Contingent Major Repairs	£16,257,532	£2,533	£84
Unsurveyed Block Allowances	£9,641,229	£1,502	£50
Total	**£348,364,374**	**£54,271**	**£1,809**

Ridge's report also notes that "*8.05% of the stock (517 dwellings) is deemed "currently non-decent" in accordance with the June 2006 Decent Homes Standard definition (up to 2023). Ridge recommends that all works forecast by the survey are undertaken, in which case the Decent Homes Standard (part of the Homes Standard) will be automatically delivered as a by-product of an effective planned works programme*."

The profile of works is not based on an annual sum of equal amounts. The profile of spend over 30 years takes into account the lifecycle replace of each element within a property, based on its condition and potential length of useful life at the date of the survey. The replacement lifecycle may occur more than once in a 30 year business planning period.

The survey only covers the works for Decent Homes and as such there are areas of expenditure that have been included in the business plan that were not in the survey, but that are still required for compliance, disabled adaptations, structural works environmental works, urgent works that have been promised to tenants and are part way to completion and works towards achieving net carbon zero.

The works include (at 2023-24 prices):.

- Limes Avenue and Copperfield - £5.981 million in 2023-24
- Broadway - £4.1 million in over 2023-24 to 2025-26
- Sheltered Refurbishments - £1.79 million over 5 years from 2023-24 (repeated after 15 years
- Emergency Alarm Upgrade - £763k over 2023-24 and 2024-25 (repeated after 18 years)
- Norway House improvements and lifecycle costs £1.77m over 30 years
- Net carbon zero works £17.6 million over 11 years from 2023-24
- Fire Compartmentation works £500k per annum
- Structural works £800k per annum
- Asbestos works £271k per annum
- Environmental and tother minor works £235k per annum
- Disabled adaptations £1m per annum
- Professional fees for capital administration £687k per annum

Prices are assumed to rise in line with the CPI/RPI rates assumed in the economic assumptions.

Over the next five years, the capital works expected are (inclusive of inflation):

Year	Major Works & Improvements (new SCS from 24-25) £'m	Non-SCS Additional Works £'m	New Build Development £'m	Other Capital Spend £'m	Total £'m
2023-24	£17.317m	£14.649m	£9.963m	£0.983m	£42.912m
2024-25	£12.380m	£8.684m	£11.523m	£0.500m	£33.087m
2025-26	£8.722m	£10.061m	£15.294m	£0.500m	£34.576m
2026-27	£4.525m	£7.072m	£7.113m	£0.510m	£19.220m
2027-28	£12.184m	£7.406m	£6.483m	£0.520m	£26.594m
2028-29	£19.080m	£7.336m	0	£0.531m	£26.947m
Total	**£74.208m**	**£55.208m**	**£50.376m**	**£3.544m**	**£183.336m**

8. Other Capital Spend

In addition to the capital spend required to maintain the stock, there are budgets included for other capital items:

2023-24Service enhancement costs (Housing Asset Management) - £729k
2023-24 Homes Fit for Human Habitation Scheme (HFFHH) – £254k
2024-25 HFFHH - £154k
2025-26 HFFHH - £154k
2024-25 and 2025-26 ~Contingency £346k then onwards £500k per annum

9. **Depreciation**

Depreciation is calculated on owned stock based on £1,626.61 per unit, giving a charge to the HRA of £10.490 million in 2023-24 and this rises by 2% per annum.

Depreciation is treated as a charge or deduction from the HRA revenue balances which is transferred into the Major Repairs Reserve. The Major Repairs Reserve is a pot of money that can only be used to fund capital works or repay debt. Whilst it can be used for any capital works in the HRA, it is principally designed to fund major works improvements to the existing stock. Any shortfall in funding of the capital programme can be funded from additional contributions from the HRA revenue reserve if the balance is above £2 million, or from additional borrowing.

10. Reserves, Funding and Loans

The following reserves exist for the use of the HRA as at 1 April 2023:

HRA Revenue Reserve	£4.551m (revenue or capital use)
Major Repairs Reserve	£8.486m (capital use only)
RTB 1-4-1 Receipts	£14.564m (only use for development)

The minimum HRA balance required by the Council is £2 million.

The HRA has loans totalling £154.556 million at 1 April 2023, which has reduced by £34.877m over the past two years through repayment of debt, utilising funds set aside for repayment and historic debt owed by the General Fund to the HRA.

The Major Repairs Reserve (MRR) has a significant balance of £8.486 m on 1 April 2023. The plan assumes that the capital programme for 2023-24 will use these balances plus the depreciation value transferred from the HRA to the MRR, together with grants, RTB 1-4-1 receipts where possible for development scheme, other usable RTB receipts and revenue balances to fund the capital programme to minimise borrowing. This will in turn minimise the use of revenue reserves used to pay interest charges.

Sale of council houses under the Right to Buy (RTB) after considering the tenant's discount generates receipts which are shared in proportions set by legislation between the Council and the Government. The following shares of income can arise:

- Treasury share – up to 75% of the receipt up to a limit set by local authority (paid to HM Treasury)
- Local Authority share - up to 25% of the receipt up to a limit set by local authority (retained by the Council for any capital purpose)
- £1300 per unit for admin fees
- Allowable debt – a calculation of a value designed to compensate the HRA business plan where sales exceed the number assumed in the self-financing settlement in 2012. This sum is the equivalent of the additional debt taken on for those excess units sold and could be used to pay off debt (retained by the Council for any capital use)
- Any remaining receipts is the 1-4-1 RTB receipt for replacement homes only.

The Council resolved that the HRA should be allowed to keep the admin fees and the 1-4-1 receipts, and 30% of the allowable debt compensation. The remaining 70% and 100% of the LA share is kept by the General Fund.

The business plan shows that the capital programme including development and other capital spend can be funded as follows:

		Capital Expenditure						Financing									
Year	Year	Major Works & Imps £'000	Other Capital Spend £'000	New Build Development Costs £'000	Demolition Costs £'000	Other Fixed Assets £'000	**Total Capital Expenditure £'000**	External Grant £'000	Homes England Grant £'000	RTB 141 Receipts £'000	Arranged Borrowing £'000	Other RTB Receipts £'000	Other Capital Receipts £'000	MRR £'000	RCCO £'000	Revolver Borrowing £'000	**Total Financing £'000**
1	2023/24	31,966	983	9,963	0	0	**42,912**	268	0	3,673	0	670	350	18,976	2,128	16,846	**42,912**
2	2024/25	21,064	500	11,523	0	0	**33,087**	0	0	4,526	0	67	180	10,700	2,499	15,114	**33,087**
3	2025/26	18,783	500	15,294	0	0	**34,576**	2,093	0	4,461	0	66	199	10,914	2,667	14,176	**34,576**
4	2026/27	11,597	510	7,113	0	0	**19,220**	2,033	0	1,272	0	65	212	11,132	3,098	1,408	**19,220**
5	2027/28	19,590	520	6,483	0	0	**26,594**	2,033	0	1,020	0	64	212	11,355	3,379	8,532	**26,594**
6	2028/29	26,417	531	0	0	0	**26,947**	0	0	0	0	16	212	11,582	3,202	11,937	**26,947**
7	2029/30	23,664	541	0	0	0	**24,205**	0	0	0	0	16	212	11,813	3,362	8,803	**24,205**
8	2030/31	24,118	552	0	0	0	**24,670**	0	0	0	0	16	130	12,050	4,126	8,348	**24,670**
9	2031/32	24,580	563	0	0	0	**25,143**	0	0	0	0	16	111	12,291	2,781	9,944	**25,143**
10	2032/33	25,081	574	0	0	0	**25,656**	0	0	0	0	16	93	12,537	2,897	10,114	**25,656**
11	2033/34	25,121	586	0	0	0	**25,707**	0	0	0	0	16	0	12,787	2,811	10,093	**25,707**
12	2034/35	18,681	598	0	0	0	**19,279**	0	0	0	0	16	0	13,043	2,388	3,831	**19,279**
13	2035/36	19,359	609	0	0	0	**19,968**	0	0	0	0	16	0	13,304	3,683	2,966	**19,968**
14	2036/37	19,819	622	0	0	0	**20,440**	0	0	0	0	16	0	13,570	2,729	4,126	**20,440**
15	2037/38	20,331	634	0	0	0	**20,965**	0	0	0	0	16	0	13,841	2,442	4,666	**20,965**
16	2038/39	20,718	647	0	0	0	**21,364**	0	0	0	0	16	0	14,118	2,938	4,293	**21,364**
17	2039/40	21,827	660	0	0	0	**22,487**	0	0	0	0	16	0	14,401	3,133	4,938	**22,487**
18	2040/41	22,244	673	0	0	0	**22,917**	0	0	0	0	16	0	14,689	2,991	5,222	**22,917**
19	2041/42	22,669	686	0	0	0	**23,355**	0	0	0	0	16	0	14,982	4,616	3,742	**23,355**
20	2042/43	23,736	700	0	0	0	**24,436**	0	0	0	0	0	0	15,282	3,769	5,385	**24,436**
21	2043/44	24,073	714	0	0	0	**24,787**	0	0	0	0	0	0	15,588	3,497	5,702	**24,787**
22	2044/45	24,194	728	0	0	0	**24,923**	0	0	0	0	0	0	15,899	3,920	5,104	**24,923**
23	2045/46	24,658	743	0	0	0	**25,401**	0	0	0	0	0	0	16,217	4,005	5,179	**25,401**
24	2046/47	25,131	758	0	0	0	**25,889**	0	0	0	0	0	0	16,542	3,718	5,629	**25,889**
25	2047/48	25,614	773	0	0	0	**26,387**	0	0	0	0	0	0	16,873	5,787	3,727	**26,387**
26	2048/49	25,522	788	0	0	0	**26,311**	0	0	0	0	0	0	17,210	4,731	4,370	**26,311**
27	2049/50	30,354	804	0	0	0	**31,158**	0	0	0	0	0	0	17,554	4,469	9,135	**31,158**
28	2050/51	30,941	820	0	0	0	**31,761**	0	0	0	0	0	0	17,905	4,927	8,929	**31,761**
29	2051/52	31,540	837	0	0	0	**32,377**	0	0	0	0	0	0	18,263	4,868	9,245	**32,377**
30	2052/53	32,151	853	0	0	0	**33,004**	0	0	0	0	0	0	18,629	5,862	8,513	**33,004**

The financing of the expenditure assumes that known grants, 1-4-1 RTB receipts allocated to development schemes, other RTB capital receipts generated (i.e. the Council's share before 1-4-1 receipts are calculated), other capital receipts including shared ownership 1st tranche sales and leaseholder contributions and the balance on the Major Repairs Reserve are used first.

Having exhausted the capital reserves, the plan then assumes that the HRA will contribute revenue to fund the works as a Revenue Contribution to Capital Outlay (RCCO) to minimise the remaining amount which is assumed to be borrowed. The amount of revenue contributed is limited by the plan to ensure that the minimum balance on the HRA reserve each year is £2 million.

If there is still a shortfall, then the plan assumes there will be borrowing (Revolver Borrowing) – this is currently a forecast and not actual loans. The assumption is that this borrowing would be at 5.2% in 2023-24, 4.80% in 2024-25, 3.40% in 25-26 and 2.8% from 26-27 onwards and would-be long-term debt, repaid beyond 40 years.

From years 2023.-24 to 2027-28 in the first-place shows that significant borrowing will be required (£56.076 million) mainly to fund the development but also to fund the urgent works required and the new forecast of works required to existing properties. The new stock condition survey provides a profile which still indicates that borrowing will be required every year to maintain the housing stock to a good tenantable standard.

11. Financing Summary

An upper limit of £400 million of HRA borrowing has been set internally The table below summarises the position on the loans and the HRA surplus carried forwards over 30 years.

The opening debt is £154.556m.

Revolver borrowing drawn down is the amount required to fund the capital programme in the plan where other capital receipts and revenue are insufficient in the year. The plan does not have sufficient reserves to fund the repayment of 4 x £30 million of loans in years 15 to 19 so it is assumed that these are refinanced each year as they fall due. Total debt in year 30 is £374.574 million.

The HRA surplus runs very close to £2 million in every year as it uses balances to minimise the borrowing over time.

HRA Business Plan | Epping Forest DC HRA
Financing Summary

Year	Year	Opening Loan Balance £'000	Loan Drawdowns £'000	Loan Repayments £'000	Drawdown of Revolver £'000	Repayment of Revolver £'000	**Closing Loan Balance £'000**	**HRA Surplus c/f £'000**
1	2023/24	154,556	0	0	16,846	0	**171,402**	**2,974**
2	2024/25	171,402	0	0	15,114	0	**186,516**	**2,510**
3	2025/26	186,516	0	0	14,176	0	**200,692**	**2,214**
4	2026/27	200,692	0	0	1,408	0	**202,100**	**2,109**
5	2027/28	202,100	0	0	8,532	0	**210,632**	**2,091**
6	2028/29	210,632	0	0	11,937	0	**222,568**	**2,085**
7	2029/30	222,568	0	0	8,803	0	**231,371**	**2,091**
8	2030/31	231,371	0	0	8,348	0	**239,720**	**2,097**
9	2031/32	239,720	0	0	9,944	0	**249,664**	**2,100**
10	2032/33	249,664	0	0	10,114	0	**259,778**	**2,104**
11	2033/34	259,778	0	0	10,093	0	**269,871**	**2,107**
12	2034/35	269,871	0	0	3,831	0	**273,703**	**2,111**
13	2035/36	273,703	0	0	2,966	0	**276,669**	**2,114**
14	2036/37	276,669	0	0	4,126	0	**280,795**	**2,118**
15	2037/38	280,795	30,000	-30,000	4,666	0	**285,461**	**2,122**
16	2038/39	285,461	30,000	-30,000	4,293	0	**289,754**	**2,125**
17	2039/40	289,754	30,000	-30,000	4,938	0	**294,692**	**2,129**
18	2040/41	294,692	30,000	-30,000	5,222	0	**299,914**	**2,133**
19	2041/42	299,914	33,656	-33,656	3,742	0	**303,655**	**2,137**
20	2042/43	303,655	0	0	5,385	0	**309,040**	**2,130**
21	2043/44	309,040	0	0	5,702	0	**314,743**	**2,113**
22	2044/45	314,743	0	0	5,104	0	**319,846**	**2,095**
23	2045/46	319,846	0	0	5,179	0	**325,025**	**2,076**
24	2046/47	325,025	0	0	5,629	0	**330,654**	**2,057**
25	2047/48	330,654	0	0	3,727	0	**334,382**	**2,047**
26	2048/49	334,382	0	0	4,370	0	**338,751**	**2,047**
27	2049/50	338,751	0	0	9,135	0	**347,887**	**2,047**
28	2050/51	347,887	0	0	8,929	0	**356,815**	**2,047**
29	2051/52	356,815	0	0	9,245	0	**366,060**	**2,047**
30	2052/53	366,060	0	0	8,513	0	**374,574**	**2,047**

Key Targets and Outputs

The business plan results shown in chart form below show that peak debt is in year 30 at £374.574 million. The minimum HRA balance of £2 million is maintained over 30 years, with the lowest balance of £2 million in year 5 if there is no more development.

Targets for interest cover and loan to value are not currently set in the plan. Councils are starting to use these indicators as measures of health of the plan.

Interest cover = HRA Net Operating Surplus / Interest Charges
– i.e. how many times the annual surplus could cover the annual interest charge. The minimum interest cover is 0.94 times in year 1. This has arisen due to the limit on rent increases of 7% in the face of rising costs. Borrowing is at higher rates of interest due to the Bank of England's mechanism to control inflation. Borrowing is due to take place to deliver the capital programme and new development. New development will in turn provide a future rental stream which can be seen then returns the interest cover to above 1.25 times.

Select Covenant Interest Cover

Year	Mvt	Base	Live	Target	Met/Breach
		ratio	ratio	ratio	
1		0.94	0.94	1.25	**Breach**
2		1.25	1.25	1.25	**Breach**
3		1.34	1.34	1.25	
4		1.46	1.46	1.25	
5		1.51	1.51	1.25	
6		1.46	1.46	1.25	
7		1.47	1.47	1.25	
8		1.54	1.54	1.25	
9		1.35	1.35	1.25	
10		1.35	1.35	1.25	
11		1.31	1.31	1.25	
12		1.26	1.26	1.25	
13		1.40	1.40	1.25	
14		1.29	1.29	1.25	
15		1.25	1.25	1.25	
16		1.31	1.31	1.25	
17		1.33	1.33	1.25	
18		1.32	1.32	1.25	
19		1.50	1.50	1.25	
20		1.41	1.41	1.25	
21		1.37	1.37	1.25	
22		1.41	1.41	1.25	
23		1.42	1.42	1.25	
24		1.38	1.38	1.25	
25		1.61	1.61	1.25	
26		1.50	1.50	1.25	
27		1.46	1.46	1.25	
28		1.49	1.49	1.25	
29		1.48	1.48	1.25	
30		1.56	1.56	1.25	

Loan to Value = Total Loans / Housing Fixed Assets
– i.e. the proportion of fixed asset value that covers the debt. The maximum loan to value estimated in the plan is 22% in year 10. This falls in the year where new there is significant works planned between years 6 to 10 in the plan..

Should the target for borrowing be forecast to be breached, or borrowing becomes unaffordable, the HRA may need to look to:

a) Reduce the revenue services it provides.
b) Reduce the volume of development to stem borrowing.
c) Sell HRA assets to provide capital receipts to fund the plan.

Reason for decision:

Although stock holding councils no longer must summit a Housing Revenue Account Business Plan, it is still prudent to produce one as it acts as a planning tool for both financial and personnel resources.

Options considered and rejected:

To not meet Decent Homes Standard was considered, however that would lead to increased revenue spend in the future and the life span of the asset would be minimised.

To stop development. This we lead to a net loss of stock due to the RTB, in addition there would not be a compounded increase in income, which may impact the investment in stock in the future.

To not invest in the urgent works and continue to repair on an adhoc bases. This would lead to a long-term deterioration of stock leading, to an increase in cost of revenue repairs and risk the intervention of the Regulator if the Consumer Standard is not met.

Consultation undertaken:

The Finance Team have been consulted and agree. Consultation has taken place with the relevant officers in EFDC.

Resource implications:

The paper clearly indicates both the Capital and Revenue requirements for the HRA business plan. There are no additional resource implications.

Legal and Governance Implications:

The legal and governance implication are highlighted within the sector risk profile update.

Additional legislation is also referenced in Appendix C – FAQs Point 3.

Safer, Cleaner, Greener Implications:

The plan already includes development using a 'Fabric First Approach' Furthermore the stock condition survey will enable officers to plan for carbon neutrality

Background Papers:

No additional papers

Impact Assessments:

Attached

Risk Management:

The risks of not approving the business plan are highlighted in the report.
Furthermore, a risk register is attached

Appendix A - Why undertake a Council Housebuilding Programme

The main reasons for the Cabinet deciding in principle to introduce a new Housebuilding Programme were that:

(a) The Council's HRA land could be developed for much-needed affordable housing

(b) The Council would receive the associated New Homes Bonus (NHB) – equivalent to around £6,700 per property over the six-year NHB period, to use for any Council purpose.

(c) The land and constructed buildings would be retained as a Council asset - rather than transferring the land to a housing association at a subsidised price, for the housing association to develop the affordable housing.

(d) The Council would benefit from the net rental income in the future once the development loan has been covered.

(e) It may be possible for the Council itself to receive the benefit of capital grant funding from the Homes and Communities Agency.

(f) The Council would have greater control over the future use of the affordable homes.

(g) The cost of construction would be less than for a housing association, since the Council can recover the cost of VAT for fees from Her Majesty's Revenue and Customs (HMRC), which housing associations cannot; and

(h) It would enable the Council to increase its housing stock, instead of continuing to reduce the stock through the Right to Buy, and thereby slowly reduce the associated unit costs of managing and maintaining the Council's housing stock.

<u>Appendix B</u> – Equality Assessment

Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
   - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
   - advancing equality of opportunity between people who share a protected characteristic and those who do not,
   - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.

2. The characteristics protected by the Equality Act are:
   - age
   - disability
   - gender
   - gender reassignment
   - marriage/civil partnership
   - pregnancy/maternity
   - race
   - religion/belief
   - sexual orientation.

3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.

4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.

5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.

6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.

7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an** EqIA. An EqIA should also be completed/reviewed at key stages of projects.

8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:

- Factsheet 1: Equality Profile of the Epping Forest District
- Factsheet 2: Sources of information about equality protected characteristics
- Factsheet 3: Glossary of equality related terms
- Factsheet 4: Common misunderstandings about the Equality Duty
- Factsheet 5: Frequently asked questions
- Factsheet 6: Reporting equality analysis to a committee or other decision making body

○	**Section 1: Identifying details**
	Your function, service area and team: **Property & Housing Services**
	If you are submitting this EqIA on behalf of another function, service area or team, specify the originating function, service area or team: **N/A**
	Title of policy: **HRA Business Plan**
	Officer completing the EqIA: **Surjit Balu**, Interim Director of Housing and Property sbalu@eppingforestdc.gov.uk
	Date of completing the assessment: 11th Jan 2024
	Section 2: Policy to be analysed
2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? **No**
2.2	Describe the main aims, objectives and purpose of the policy (or decision): **Annual review of the HRA Business Plan**
2.3	Does or will the policy or decision affect: service users, employees, the wider community or groups of people, particularly where there are areas of known inequalities? **No** Will the policy or decision influence how organisations operate? **No**
2.4	Will the policy or decision involve substantial changes in resources? **No**
2.5	Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? **Stronger communities**
	Section 3: Evidence/data about the user population and consultation[1]
	As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).
3.1	What does the information tell you about those groups identified? **N/A**

3.2	Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision? **N/A**		
3.3	If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary: **N/A**		
	Section 4: Impact of policy or decision		
	Use this section to assess any potential impact on equality groups based on what you now know.		
	Description of impact	**Nature of impact** Positive, neutral, adverse (explain why)	**Extent of impact** Low, medium, high (use L, M or H)
	Age	**Neutral – the paper is for information only and will not impact on any groups**	L
	Disability	As Above	L
	Gender	As Above	L
	Gender reassignment	As Above	L
	Marriage/civil partnership	As Above	L
	Pregnancy/maternity	As Above	L
	Race	As Above	L
	Religion/belief	As Above	L
	Sexual orientation	As Above	L
	Section 5: Conclusion		
		Tick **Yes/No as appropriate**	
5.1	Does the EqIA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No	If '**YES**', use the action plan at **Section 6** to describe the adverse impacts and what mitigating actions you could put in place.
	Section 6: Action plan to address and monitor adverse impacts		
	What are the potential adverse impacts?	**What are the mitigating actions?**	**Date they will be achieved.**
	None	**N/A**	
	Section 7: Sign off **I confirm that this initial analysis has been completed appropriately.** **(A typed signature is sufficient.)**		
Date	Signature of Director of Housing and Property: Surjit Balu 11th Jan 2024		

Date	Signature of person completing the EqIA: Surjit Balu	11th Jan 2024

Advice
Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqIA you undertake to the director responsible for the service area. Retain a copy of this EqIA for your records. If this EqIA relates to a continuing project, ensure this document is kept under review and updated, e.g after a consultation has been undertaken.

<u>Appendix C</u> – Frequently Asked Questions

Housing Revenue Account Business Planning - Frequently Asked Questions

1. What is the HRA?

The HRA is the Housing Revenue Account. This is a ring-fenced account which has been in existence since the 1930's. All Councils with more than 199 units of social rented stock are required to account for annual income and expenditure on those properties separately from the General Fund. The HRA is bound by legislation which defines what can and cannot be charged to the HRA.

2. What does the "ring-fencing" mean?

"Ring-fencing means:

- Operation of a separate income and expenditure account
- Operation of a separate HRA reserve
- HRA reserve cannot go into deficit
- There are separate rules in relation to capital and debt financing

3. What changes in legislation have affected the HRA?

- **1989 Local Government and Housing Act** – ring-fenced HRA with capital and borrowing controls and a redistributive Housing Subsidy System (this was controlled by Central Govt, and the opposite of running a "business-like" service)
- **HRA Resource Accounting 2001** – introduced a Major Repairs Allowance (spend on capital) and a Major Repairs Reserve
- **Rent Restructuring from 2002 onwards** – moving existing social rents towards a comparable rent across England based on capital values, bedroom numbers and wage levels
- **Local Government Act 2003** – Prudential Code – replaced capital controls
- **2006 – 2012** – work to move to Self-Financing HRAs
- **2012 – abolition of the Housing Subsidy System** and introduction of the self-financing debt settlement with a debt cap
- **2018 – abolition of the HRA Debt Cap**

Effectively a journey towards increasing freedom and flexibility – within the context of a legislatively controlled accounting framework.

4. What is the HRA Business Plan?

The HRA business plan can include a written plan for the future of the housing stock and estates, but in terms of the finances, the business plan is a set of assumptions about income and expenditure over 40 years. Starting from the base information that we know about the housing stock and budgets now, the assumptions allow us to estimate future cashflows arising from

Council housing given economic forecasts. A survey of the stock gives us a reliable idea about how much investment is needed to keep the stock in a decent condition. The remaining amounts after accounting for day-to-day budgets need to be enough to allow the Council to pay interest on its loans and/or repay its HRA debt.

The Council uses Abovo-Consult’s Fortress HRA Business Planning and Stress-Testing Model to forecast its 30-year business plan and combines both capital and revenue funding to produce a holistic view.

5. Where do the assumptions about future inflation come from?

The underlying estimates of Consumer Price Inflation (CPI) and Retail Price Inflation (RPI) for the next 5 years are taken from the estimates of the Office for Budgetary Responsibility (OBR) published figures based at quarter 2.Inflation on staffing costs is provided by the Council’s annual estimates for the Council as a whole.

6. What income is included in the HRA?

Revenue income comes from:

- tenants’ weekly rents on homes and garages
- charges for services and facilities
- miscellaneous land and property rents such as shops, land, hardstanding.

The HRA also received contributions from the General Fund toward expenditure incurred where a share of costs relates to the wider residential area.

Within statute it can also include sums directed by the Secretary of State that are income in accordance with the Code.

Revenue income may be used to finance revenue expenditure in the HRA, and may also be used to finance capital expenditure, thus reducing the amount of borrowing that would otherwise have been required.

7. What is Capital Income?

Capital income either arises from the sale of Council Housing land and property or from grants given to support the financing of new development or other capital projects. Capital income can only be used to finance future capital spend it cannot be used to fund revenue expenditure in the HRA.

Examples are Right to Buy sales receipts, income from equity sales in shared ownership properties, grants from Homes England, sales of land in the HRA and contributions to works from leaseholders.

Money borrowed is also capital income.

8. How are social rents calculated?

Social rents are usually historic rents that have been moved towards a formula based “target” rent since 2002. Many rents will have converged with the formula or target rent, but others may not yet have done so.

The social rent formula aimed to allow rents to converge to a formula rent originally by 2013. The formula rent is calculated for each property by local authority area with an allowance for the size of the property (number of bedrooms), its capital value compared to the national average and an affordability adjustment by comparing wages in an area to the national average. Capital values were set in 1999. The formula is a weighted average figure by property taking into account 30% of the value in relation to the value and 70% in relation to the wage effect.

Each year, the formula rent is increased, regardless of whether the actual rent is increased or decreased. Originally, the increase was RPI + 0.5%, but in 2015, this was amended to CPI + 1%.

"Target Rents" can be set at up to formula + 5% for General Needs properties and formula + 10% for Supported housing. This is known as "flexibility" or "tolerance". Whatever figure is chosen for the rent be it the formula or formula + flexibility is known as the "target rent".

From 2002 to 2015, actual rents were allowed to rise by RPI + 0.5% + a max of £2 per week so that they converged towards the target. Convergence in year was terminated form April 2015, making it impossible to converge existing tenants to target rents.

The flexibility cannot be introduced once a property has been let for the first time.

9. How are affordable rents calculated?

Affordable rents can be set for properties that are developed or purchased using grant for the purpose of affordable housing – this includes the use of Right to Buy 1-4-1 receipts.

Affordable rents are set at first and subsequent re-lets by taking the market rent for a similar property including any service charges and then setting the rent at a maximum of 80% of that figure. Service charges cannot be added on to the affordable rent separately after calculating the 80% of a non-serviced market rent. It may often be the case that the market rate does not cover the actual cost of services provided, but this is a risk that must be considered at the time of taking the grant support. The market rent will set the value that people are prepared to or ae able to pay, the reduction to 80% of that value is designed to make the property affordable at the time of letting to a social tenant.

The Council has its own policy of setting affordable rents at the minimum of the calculated value and the relevant Local Housing Allowance.

10. How can rents be increased?

Social rents including affordable rents from 2020 are regulated by the Regulator of Social Housing (RSH) in the same way as Housing Associations. Rents must be set in line with the Rent Standard and breaches must be reported to the RSH.

The Rent Standard states that social rents (i.e. those set by reference to the "formula rent") that are less than or equal to the formula rent + allowed flexibility may increase by a maximum of the CPI (based on September in the year prior to the April increase) + 1%. The rate of CPI in September 2021 was 3.1%, so the maximum allowable increase in rents in April is 4.1%. This increase can be assumed for up to the next two financial years and then further guidance will be required.

Social rents that are less than the formula or "target" rent may be increased in a rent year to that target if the property is re-let to a new tenant. The Rent Standard also applies to affordable rents (i.e. those set by reference to 80% of the market rent) and the same principle applies. Affordable rents can increase by a maximum of CPI + 1% until 31 March 2025.

On re-let, an affordable rent must always be referenced back to the market rent for a similar property including service charges and a rent set at a maximum of 80% of the market rent. Market rents can go up and down.

The Council has its own policy which limits an affordable rent to the Local Housing Allowance (LHA) for the area that the property is within. If the affordable rent is below the LHA, but an increase of CPI + 1% would mean that it will be above the LHA, then the LHA rate is the rent that will be set. Note that since April 2020, LHA rates have been frozen and no increase is expected within the next two years.

The Government can intervene at any time and have done so in the past. Between 2016 and 2020, rents were cut by 1% per annum in cash terms (about 12% in real terms).

11. How are service charge fees calculated?

Some properties receive services that are specific to their property. This is more usually for flats and blocks of properties. Examples are warden / sheltered unit support charges, communal area heating and lighting charges, water and sewage charges and repairs recharges.

The cost of these services are recharged to the tenants who specifically benefit rather than every tenant. The charges made in total must not exceed the cost of those services to the HRA each year.

12. What expenditure can be counted as revenue expenditure in the HRA?

The HRA can be charged with the costs of:

- Repairs and Maintenance
- Supervision and Management
- Rents, rates, taxes and other charges,
- Depreciation and impairment of non-current assets (e.g. homes, garages, shops)
- Debt Management Costs including interest on loans
- Sums directed by the Secretary of State that are expenditure in accordance with the Code.

13. What can be counted as capital expenditure?

The key principle is that everything is revenue unless you can prove its capital!

There are three “routes” for qualification as capital and a large cost does not mean its capital.

- Spending which creates a non-current asset
- Spending which meets a definition specified in regulations made under the Local Government Act 2003 (does not create a non-current asset)
- If Secretary of State makes a direction that spending can be treated as capital (does not create a non-current asset).

14. What is an asset?

An asset is:

- An item held for use by the authority
- Used more than one financial year
- Its cost must be reliably measured
- The authority must gain future economic or service benefits form its ownership

15. What is a stock condition survey?

A stock condition survey provides an independent view of the profile of expenditure that will be needed to maintain the Council’s housing stock and estate assets at a particular standard (minimum is the Decent Homes Standard) over 40 years. The profile will not give the same amount of money every year as it takes into account the lifecycle of elements within the homes such as kitchens, bathrooms, roofs, etc.

The information is used in the business plan to indicate how much money should be spent each year with inflation added on and provide budgets for the capital programme

The information can also be used to procure programmes of work more efficiently from having accurate data about the work required. It can also be used to consider options for stock other than maintenance to achieve value for money.

16. What happens if the Council does not maintain its existing stock?

The Council must maintain its stock to at least the Decent Homes Standard (DHS). The DHS is not a high standard but ensures that a property is kept warm and weathertight with functioning kitchens and bathrooms.

Failure to invest in properties at the right time can lead to an increase in unlettable properties which leads to a loss of rental income. Less rental income leaves less money to invest in the properties without borrowing.

Failure to maintain a roof for example can lead to other issues such as damp and mould and eventually an increasing number of "spin-off" repairs. Money spent on additional repairs reduces the money available in the HRA to maintain or improve the service and develop new homes.

17. What money can be used to finance the capital programme?

The capital programme can be financed from the following sources:

- Grants specifically for major works and/or development projects
- Shared ownership sales receipts on staircasing of existing S/O units or new build first tranches
- Capital receipts from the sale of land in the HRA
- Major Repairs Reserve funds
- Income set aside in earmarked reserves for example for new build (if the programme contains the type of expenditure agreed for the reserve)
- Receipts arising from RTB sales specifically for the replacement of homes – if and only if development / acquisition is in the plan
- Other allowable receipts that can be retained from RTB sales
- Revenue contributions to capital outlay (RCCO) from the HRA
- Borrowing

18. How much can the HRA borrow?

When self-financing was introduced for the HRA, the Council was given a debt cap, or maximum borrowing allowed of £185.457 million.

In 2018, the Conservative Government removed the debt cap for all Councils and allowed them to borrow as long as the borrowing is prudent. The HRA business plan is a method by which Council can estimate how much the HRA can afford to borrow and when it is required.

19. What is the value of loans in the HRA now?

In March 2012, at the start of self-financing, the Council had a zero debt. However, the debt settlement allocated £185.457 million to the Council, which meant it had to borrow this sum from PWLB to pay to the Government to start self-financing. The £185.457 million was made up six loans ranging from 10-year repayment to 30-year repayment terms at rates from 3.46% to 3.5%. The loans at the time were on preferential low rates available only on a specific day to Councils needing to borrow for self-financing settlements.

The £185 million was not based on the cost of the housing stock, but was a calculated value to work out how much debt the Council could afford based on what income it expected to receive and expenditure it needed to make over 30 years from 2012. This was a Government calculation.

In March 2021, the HRA borrowed £4 million to fund its capital programme giving a total loan value of £189.433 million at 31 March 2021

20. Where does the HRA borrow from?

HRA debt does not have to be supported by actual loans, it can also be financed internally. The HRA Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, or the underlying borrowing need.

The HRA normally borrows within the Council's overall treasury management policy as borrowing relates to the Council as a whole.

Loans are available at short notice from the Government via the Public Works Loan Board (PWLB). PWLB loans can be short terms or for very long periods (> 50 years) and rates of interest are set by the Government. Loans can also be taken from the external funders and also the HRA can borrow internally from the General Fund, if there are spare cash resources available.

21. What is the risk to the Council in borrowing?

The HRA no longer has a limit on how much it can borrow. Borrowing needs to be prudent which means that there is sufficient income over time to service the debt.

Borrowing in the HRA is not backed by a charge over the homes, so there is no risk of the properties being repossessed by a bank. The HRA is not obliged to set aside a Minimum Revenue Provision each year to build up to repay a debt (unlike the General Fund). The business plan over 30 years gives a good estimate of whether the debt taken on is sustainable or not.

Loans at present are at low interest rates and PWLB loans are available to Councils for very long periods of time. Loan repayment terms on PWLB are usually "bullet payments" which means interest is paid annually on the full amount loaned for the period of the loan and the amount borrowed is paid at the end of the loan period.

Borrowing to fund new development for example should provide an income stream with which to repay the loan. Development requires upfront expenditure to deliver cashflows over the future. The self-financing assumptions did not assume any development, so the income from existing homes is really only enough to cover the management and maintenance and debt relating to those homes.

22. How is interest calculated and charged to the HRA on debt?

There are several ways that Councils account for HRA borrowing and this can affect the time and the amount of loan that is repaid and similarly the interest charged.

Some Councils have a single "pot" of borrowing which includes many loans all with differing rates and repayment dates. They calculate the amount of debt that the HRA is responsible for and work this out as a percentage of the total loan pot. They then work out what the average interest rate across the whole pot of debt is and make a charge to the HRA equivalent to the HRA's proportion of the interest each year. As new loans are taken out or old loans repaid, the interest on the pot will change each year, but can be estimated fairly accurately.

Alternatively, the Council can have two pots – one pot of debt for General Fund borrowing and a separate one for HRA borrowing. The interest charged to the HRA will be based on the annual interest on the loans in its own dedicated pot rather than a hybrid calculation across all debt in the Council.

Epping Forest takes the latter approach with individual loans accounted for in the HRA with interest rates for each loan and set repayment dates.

23. When do loans need to be repaid by in the HRA?

Whilst there is no requirement in the HRA for a Council to become debt free over time, the Council's loans to PWLB and external funders do have repayment dates. If there is insufficient cash at the time of repayment, then the loan can usually be refinanced. This is a matter for the Council's treasury management strategy.

Unlike the General Fund, the HRA is not required to set aside a Minimum Revenue Provision (MRP) each year to meet debt repayments.

There are several methods by which Councils use HRA funds to repay debt:

- Annual set aside, payment to GF – the HRA pays over an annual proportion of its total debt each year to the General Fund. The General Fund then uses this money either to pay down debt as it falls due, uses it to pay off other loans or to reduce the need to borrow at the time. The HRA assumes that its debt is reduced and it also pays a reduced interest charge as a result.

- Annual set aside, held in a reserve for repayment of debt – the HRA pays over an annual proportion of its total debt into an earmarked account to be used to repay debt as it falls due. As the loan is due for repayment, the money in the reserve is used to repay the debt. The HRA does not assumes that its debt is reduced and it also pays the same amount of interest as it would have done without set aside. Setting aside HRA balances in this way means that they can no longer be used to fund revenue activities and can only be used for capital.

- Allow HRA balances to build up to allow the repayment of the loan as it falls due. The revenue is then paid at the loan repayment date to the Council to extinguish the debt. Balances remain available to meet revenue issues over time. Interest charges assume that debt is repaid on the repayment date.

It should be noted that whilst long term loans can be repaid early, there is usually a financial penalty incurred should this happen. The penalty reflects the loss of interest to the lender that I would have assumed it would get together with an allowance for having had cash at an earlier date than expected. Where there is a cost this is known as a "premium", in the event of a saving (i.e. if interest rates allow) then this is known as a "discount".

If there are insufficient funds, the HRA can refinance a loan at the point of repayment. This may result in a lower rate of interest then the original loan.

24. How much of the receipt from a Right to Buy Sale can the Council keep?

The proportion of annual Right to Buy sales receipts (after discount) that the Council and/or HRA can keep depends on how the cumulative sales receipts since April 2012 compare to that expected in the self-financing calculation.

For each sale, the Council can keep £1,300 to pay for the administration of the sale.

Each year, the Treasury expects to receive an agreed sum from RTB sales and this is sum is shared or allocated to Councils based on their RTB sales pre 2012. There is a proportion of the receipt that the Council may keep for each sale – this is known as the LA share. Other parts of the receipts in the year depend on whether the Treasury's share has been reached or not.

If the Council regularly sells more properties than the self-financing debt settlement assumed, then it will be compensated for effectively having taken on more debt than it should have. The income from rents (after management and maintenance costs) from homes is assumed to be used to pay HRA debt off. If the number of sales is more than expected, then the net income will be lower than expected leaving less revenue to pay off debt. In this case, the Council can keep part of the receipts to help it plug this gap.

If after accounting for the administration fee, the LA share, the Treasury Share and the Allowable Debt, there are still some receipts left, then these are known as 1-4-1 Replacement Receipts and these must be used to finance the cost of replacing homes, or returned to the Government for redistribution.

25. What are RTB 1-4-1 receipts and how can they be used?

RTB 1-4-1 receipts are a share of the sales receipts arising from RTB sales. They are generated when the number and values of sales exceed set limits for the Council each year. These receipts were originally designed to help fund replacement of additional social homes lost as a result of an increase in 2012 in the level of discount offered to tenants wishing to buy their own home. The expectation was that the money could replace the additional sales on a 1-4-1 basis.

RTB 1-4-1 receipts can only be used to fund:

- New build development of homes in the HRA
- Acquisition of homes in the HRA
- Development by another Registered Provider

Unused receipts after a time limit are returned to Government with interest at 4% above the bank base rate.

From 1 April 2012 to 31 March 2020, the 1-4-1 receipts could only be used to finance up to 30% of a purchase / scheme – the rest needing to be financed from revenue / borrowing. From 1 April 2021 the proportion is 40%. This cannot be combined with any grant income.

From 1 April 2012 to 31 March 2020, the 1-4-1 receipts had to be spent within 12 quarters of it being earned. Quarterly reporting was required. From 1 April 2021, the time allowed is 5 years from the year in which the receipts arise.

Originally, receipts could only be used to fund social and affordable rented properties in the HRA. From 1 April 2021, they can be used to fund shared ownership and First Homes (discounted market sales) tenures.

26. Does the HRA have to account for depreciation on assets?

Yes, depreciation is a cash charge to the HRA which moves an allowance from HRA reserves to the Major Repairs Reserve each year. It is designed to reflect the need to finance the replacement of components within homes over time

There are several options for calculation:

- Straight line based on property value;
- Linked to major repairs expenditure needs (e.g. using a survey);
- Componentised approach – each component in a house e.g. doors & windows, kitchen, bathroom, electrics, boiler, roof have replacement lifecycles ranging from 15 years top 60 years depending on the item.

The sum charges to the HRA is transferred into the Major Repairs Reserve (MRR). If the amount of depreciation charged to the HRA based on the calculations of past costs is insufficient to meet the longer term capital spending estimates, a Council can "top up" the figure from the HRA reserves. Adding further sums into the MRR means it can only be spent on capital expenditure or repayment of loans.

27. What is the Major Repairs Reserve used for?

Councils with an HRA must have a Major Repairs Reserve (MRR). The Major Repairs Reserve is used to build up capital sums that can be used to finance the capital programme and repayment of housing debt.

The income to the reserve is based on the depreciation charge made to the HRA. It can also be "topped up" with further HRA contributions. The funds in the MRR are capital.

A minimum balance can be set on the MRR, but most Councils utilise the balance on the MRR each year to fund the capital programme alongside other capital receipts, revenue contributions and borrowing.

The MRR is used less now as a means of building up reserves as within self-financing it is possible to forecast the use of revenue income to fund the capital programme.

28. What is the minimum level of HRA reserve allowed?

The HRA reserve must not either fall into negativity or be budgeted to do so.

An annual HRA budget can be set to spend more than the income received in the year (e.g. to fund capital or loan repayments from HRA reserves) but this "deficit" will be taken from the reserve to leave the overall reserve total positive after doing so.

The Council can set its own minimum level of working capital that it doesn't want to fall below.

29. What is the interest cover ratio used for?

Interest cover is the number of times that the annual interest charge could be paid out of the annual net income (income – revenue spend) – or operating surplus. This figure is before any loan repayments or interest have been made.

For example, if the annual net income to the HRA is £2 million and the interest charges are £750,000, then the interest cover is £2million / £750k which is 2.67 times.

The ratio is used to measure how affordable debt is in the HRA via its ability to pay interest on the loans. A prudent minimum interest cover is 1.25 times.

Borrowing to build new homes may reduce the interest cover during the building phase as interest is increased. However, as the properties begin to generate rental income, the net income will rise (new homes need less maintenance) and thus the number of times that the operating surplus will cover the interest charged will increase.

This is being used as a measure of affordability rather than the actual level of debt held.

30. What is the loan to value measure used for?

Loan to value measures the proportion of the value of the Council's housing stock that is covered by loans. This measure is used by housing associations but is less meaningful to Councils at the present time. The value of the Council's housing stock is not what it cost, it is valued at its existing use value as a social home – this can be revalued and thus change the figure.

Housing associations are required to allow the bank to take a charge over their assets in return for borrowing money. The bank would want to know whether the loans they have provided are greater than the value of the properties in case the housing association cannot meet its repayments.

Councils do not have this requirement when borrowing, but Councils have not until recently been involved in large development programmes. The debt cap pre 2018, meant that Council debt as lower by comparison than housing association debt.