Research into expenditure within the Housing Revenue Account

Local Government Association
Association of Retained Council Housing
National Federation of ALMOs

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Executive Summary

Introduction

Savills Affordable Housing Consultancy was jointly appointed by the Local Government Association (LGA), and its partners the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA), to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA). This report addresses the work related to expenditure in the HRA, carried out during the period from August-November 2022 based on the construction of a national HRA business plan model and taking into account the views and feedback from a series of participant local authorities, the partners and officials from DLUHC.

Headline outputs

Stock condition survey investment

Core stock condition survey profiles total c£35,000 per unit over a 30 year period (at 2022.23 prices) consistent with allocations made for depreciation within business plans to cover decent homes and health and safety standards, therefore a minimum amount that has to be financed.

Inflationary pressures within capital programmes and a rent increase capped at no more than 7% combine to suggest that in order to continue to achieve these levels of investment, authorities will need additional borrowing.

Our estimate is c£2.2billion over 30 years, an increase of c8% on current borrowing levels.

There may be additional headroom from both revenue and borrowing to finance further investment in core stock survey profiles, up to £37,500 per unit over 30 years (about 7%), providing authorities are able to increase rents in line with CPI+1% (and that they do so) beyond 2024, but there is little or no headroom to meet greater increases in costs than these, noting inflation is currently above 10%.

Decent Homes Plus

There has been a focus away from this as a concept with authorities focusing on energy efficiency and beginning preparations for the delivery of Net Zero Carbon.

Fire and Building Safety

Our estimate of the sector-wide requirement to achieve building safety standards for tall buildings and buildings housing vulnerable residents is **£7.7billion**, based on c3,300 tall buildings with approximately 228,000 units affected, and up to 290,000 homes housing vulnerable residents.

Of this £7.7billion, an estimated £1.8billion relates to re-cladding, some of which is covered by Government support. Other costs include compartmentation, fire door replacement, sprinklers and ongoing building safety case costs.

Our research suggests that whilst 15% of work has been completed to date, unit costs are rising as a result of inflationary pressures.

Energy Efficiency

Our estimate of the sector-wide requirement to meet EPC C in all homes by 2030 is **£3.5billion** based on an average of 69% current compliance and £7,700 per property to carry out the works.

This total excludes an element of works costs that are already likely to be included in capital programmes to bring properties that are "just below" EPC C into compliance – our estimate is 25% are "just below". Some authorities have challenged the notion of "just below".

This level of expenditure strongly suggests that, without access to significant additional grants, local authorities will need to draw further on borrowing.

Net Zero Carbon

Our estimate of the total investment requirement to meet Net Zero Carbon is based on a long-term two-stage programme in which fabric and insulation is addressed first followed by the implementation of new technologies in the future.

Our estimate of the total investment requirement is £78billion – or £50,000 per unit over 30 years, highlighting that the ***additional costs*** associated with achieving Net Zero are in the region of **£23billion**. Just less than half of these costs would need to be incurred by 2030.

There would be an additional premium on these costs if delivery is brought forward to 2040 as a result of incomplete decarbonisation of the national grid before 2050. Our estimate is that this would increase by £9billion if Net Zero is targeted for 2040.

Average costs over the longer term are likely to be lower than is being experienced in pilot programmes.

Conversely, costs to deliver Social Housing Decarbonisation Fund Wave 2 pilot schemes are increasing not reducing, and in the case of heat pumps, inflation has been significant. This is leading to a higher requirement for matched funding that envisaged in the programme, however a reduction in the cost of heat pumps (for example) has been factored into the above total outputs.

No HRA business plan is able to sustain decarbonisation of the stock and additional streams of income will be required to be identified.

New build and development

Local authorities are estimated to be delivering new build programmes between £625million and just over £700million per year, based on 2,500 homes per annum, which excludes acquisitions.

Pressures on these programmes arising from construction cost inflation mean that there is likely to be a need for additional subsidy support to ensure programmes remain viable. Unit costs are already pushing up to a national average of c£250,000 per home. Additional construction inflation at the lower end of experiences (10%) suggests additional subsidy required of c£25,000 per home; construction inflation at 18% (the upper end of experiences) suggests a need for increased subsidy of c£45,000 per home.

Additionally, interest rate changes are adding to delivery costs, with a change from 3% to 4% meaning between £12-18,000 additional subsidy required per home (depending on the extent to which authorities are able to utilise their own land).

We estimate that an increase in the matching for 141 RTB receipts required would be as follows:

- With 10% construction cost inflation – up to 47%, increasing to 50% with the impact of interest rate changes
- With 18% construction cost inflation – up to 52%, increasing to 55% with the impact of interest rate changes.

The majority of feedback received from participant authorities was that additional costs of construction and higher interest rates were being accommodated within existing programmes and that the impact of inflation is much more likely to be felt on programmes which commence from next year, with the very real potential for programmes to be scaled back significantly should additional grant or 141 RTB subsidy not become available.

Regeneration and redevelopment

Similarly, delivery costs for regeneration schemes are increasing. The inability to be able to draw Affordable Homes Grant for anything other than "additional" units is a significant barrier to bringing these schemes forward.

There may be a case for redirecting an amount of what might otherwise be resources required to achieve net zero carbon towards the financing of regeneration and redevelopment where it is either unlikely that existing properties will achieve net zero or where it is uneconomic to do so.

Drawing upon our Asset Performance work with RPs and LAs, we estimate that an additional c25% of stock would be net negative NPV on standard asset performance evaluation assumptions inclusive of NZC spend.

Potential redevelopment schemes are hampered currently as illustrated in the following example but could be improved if avoided net zero spend were to be diverted to affordable homes grant.

For example, if current properties on a scheme all have negative NPV with net zero investment added to capital costs over 30 years, (example) 200 units with redevelopment potential of 250 properties; Affordable Homes Programme (AHP) grant for "additionality" would only amount to £100,000 (grant rate/unit) x 50 additional homes or £5m; the challenging stock types for this scheme mean that net zero costs are much higher than average (say) £50k/unit; hence the net zero "cost avoided" might be £10m, which if diverted to become AHP grant across the whole scheme contributes towards replacement as well as additional homes; total redevelopment costs @ £250k/property are £62.5m.

If this was a new build scheme, AHP might be available at £25m (£100k x 250). As it is a regeneration scheme, under current programmes the additional AHP is £5m. The above approach releases a total of £15m – leaving a £5m subsidy gap but perhaps making the difference between the HRA being able to sustain the investment or not.

At a national level, drawing upon experiences working with authorities on their net zero estimates and asset performance evaluation, we have estimated that the delivery of net zero could drive many properties towards further negative Net Present Value over 30 years – a broad estimate of 540,000 properties. If it is assumed that authorities opt to redevelop a significant proportion of these properties, including an increase in density of 15%, the replacement build costs less AHP grant available through additionality would be c£35billion whilst net zero costs avoided on the redeveloped properties would be £16billion, around half of this amount, which is less than £1billion pa over the period to 2040.

In addition, for example, the avoidance of negative NPV exerting a drag on the HRA business plan may put the HRA in a stronger position to contribute towards the costs (on the same "cost avoided" basis).

This approach could therefore allow complex and necessary regeneration schemes to come forward which may not otherwise, and the methodology is therefore worthy of further detailed consideration.

An exemplar from a participating local authority setting out the challenges around regeneration when access to AHP is only for additional units is included (with their permission) as an appendix to this report.

Revenue cost inflation

Our estimate, moderated through engagement with authorities in this analysis, suggests that inflation has already impacted budgets and outturn for 2022.23 even before inflationary pressures are accounted for in 2023.24 budgets.

- Consolidated inflation for repairs budgets is estimated at 9.2% for 2023.24 and 6.4% for 2024.25.
- Consolidated inflation for housing management budgets is estimated at 16.4% for 2023.24 and 9.4% for 2024.25.

Taken together, the total *additional* inflationary pressures on day to day revenue costs in the HRA amount to an estimated £5.1billion over 5 years.

Consumer regulation

Participant authorities have not reported any significant issues in relation to additional costs associated with enhanced regulation; whilst some administration will be increased, it is difficult to quantify at this stage, and in any case, only a small number of additional roles may be required.

Professionalisation

The cost of professionalisation of housing staff is similarly difficult to measure as this stage, however a high level estimate might suggest additional staffing pressures of £50million a year over time. More work is required in this area.

1. Introduction

1.1. Background

Savills Affordable Housing Consultancy was jointly appointed by the Local Government Association (LGA), and its partners the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA), to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA).

There are three areas of research, each addressing a key area for review and exploration:

1. HRA Expenditure: incorporating a review of expenditure pressures affecting services provided to council housing within the HRA including: landlord services and housing management, building safety, net zero carbon and other pressures.
2. HRA income: incorporating a review of income pressures, possible alternative approaches to rent policy, future rent increase policy and all other areas of income.
3. Towards a more sustainable Right to Buy: not challenging the RTB policy itself but researching and exploring issues around sales volumes, the operation of discount levels, the recycling of RTB receipts – aimed to come up with some thoughts around future policy ideas to make the policy more sustainable for local authorities.

This report addresses the work related to expenditure in the HRA.

The primary research and analysis work for this report was undertaken during the period from August-November 2022 during which time the Government was preparing its updated economic and fiscal policies, culminating in the Autumn Statement on 17th November 2022.

Some of the areas identified within the research undertaken for this report as potentially requiring additional investment and support from central government resources, were partially addressed in the Autumn Statement, particularly relating to insultation and energy efficiency. The principal areas of enquiry, however, remain for further discussion with policy-makers at DLUHC and HM Treasury.

1.2. Overall methodology

The overall approach for this research and analysis was in two parts.

1. To construct a national financial model for the HRA in England which enables a projection of expenditure and income in order to model the potential impact of a range of different challenges relating to expenditure pressures going forward, as well as to highlight the overall financial position arising from pressures being experienced by local authorities.

2. To engage with a series of local authorities in order to gain feedback on local experiences; all partners were keen to ensure that a sample of local authorities were selected in order to test out a range of questions relating to expenditure pressures in the HRA. Details of the authorities that have been engaged as part of this research are contained within the report[1].

1.3. National financial model

We have consolidated information from the following sources to enable a national financial projection for the HRA covering 162 local authority HRAs launched from 2022.23, including:

- Actual HRA outturns reported for 2020.21
- Business plans known to us in respect of 2021.22
- Budgets set (public domain) for 2022.23.

We have cross-referenced these sources to data provided by authorities during the course of business plan support provided by Savills to our clients for c15-20% of the HRA sector.

The outputs are therefore based on what is essentially a “National HRA Business Plan”, focused on the income and

We have also cross-referenced to reports and analyses produced for participants authorities and which were made available to us for use in this research.

We have necessarily had to make some assumptions around financial management and behaviour locally in order to make a national projection. There are two key points to note:

- The model assumes no draw on reserves in 2022.23 – whilst there is likely to be some increase or reduction in reserves arising from activity in 2021.22 and 2022.23, it is difficult to project – hence this is held at a balanced position so as not to distort projections.
- Levels of direct revenue financing of capital expenditure, and levels of debt repayment, vary widely between authorities; they can also vary significantly between financial years as programmes proceed – for ease of assumption, we have assumed that the 2022.23 assumption of these contributions is maintained throughout the projection, thereby allowing us to isolate the impact of rent increase and cost inflation variations

We have aimed to match and align forecast assumptions so that we can focus on the implications of variations in approaches to financing expenditure pressures in order to illustrate the extent of deliverability in the HRA.

The final modelling for this element of the research was able to take account of the Government’s announcement following its consultation on rent policy of a one-year cap of a maximum increase of 7% for rents, exempted for supported accommodation.

[1] *In this version, we have not named participants – details can be supplied on request (confidential)*

Whilst this has therefore been applied, it is important to note the caveat that findings within the income element of this research tended to suggest that not all authorities would increase their rents by the maximum 7% allowed. All outputs below therefore need to be seen in this context.

One of the key outcomes from this research is that different components of expenditure are subject to sometimes quite different inflationary pressures, and that these not only vary between element but also between different types and locations of authorities. For example, the proposal for a flat-rate pay award for national staff for £1,925pa in 2022.23 has a differential impact on average inflation drivers for local authorities dependent on the average pay of their staff, which in turn could depend on such factors as: whether there is an in-house direct labour organisation, the number of caretakers required for blocks of flats etc.

In recognising that inflation drivers are different for different cost components and that a "flat" inflation projection for costs is inappropriate, we have therefore applied the following:

- An assumption of the split in R&M costs between employees, materials and contractors
- An assumption of the split in management costs between employees, materials, contractors and utilities
- Differential inflationary increases which are then applied to each cost element.

1.4. Key expenditure pressures

Whilst the day-to-day inflationary pressures on revenue and capital expenditure have been exemplified below, the key areas of additional cost pressures, those arising from the introduction of new standards and/or new expenditure needs, that have been identified within this research are as follows.

For capital expenditure on the existing stock, development and regeneration:

- Decent Homes 2 (DH Plus)
- Energy efficiency and achievement of EPC C by 2030
- Net Zero Carbon
- Building and fire safety.

The aim of the research has been to identify and quantify the extent to which these expenditure challenges are met from mainstream capital financing resources within the HRA, and the extent therefore to which they may represent additional cost pressures when compared to the "Major Repairs Allowance" resources which were identified within the self-financing debt settlement of 2012.

We have also tested with participant authorities the impact of inflation on capital costs, generally, and in particular in the cost of construction and development, regeneration and redevelopment.

For revenue expenditure:

- Additional inflationary pressures – taking into account rent policy towards capping rent and service charges increases in the next 2 years
- Any additional pressures arising from the forthcoming passage of the Social Housing (Regulation) Bill into law, expected during 2023, which introduces enhanced consumer standard regulation for the social housing sector and a programme of inspections for local authority landlords over a four year cycle, together with a requirement to report formally on a standard set of national Tenant Satisfaction Measures or TSMs.

- Professionalisation of the social housing sector - as highlighted in a recent paper produced by the Regulator Of Social Housing[2].

1.5. Engagement with local authorities

Basis of engagement

We invited up to 12 authorities to participate in the research through a high level engagement with relevant officers based around a summary questionnaire. All authorities were approached at the same time, and we were able to engage with a majority of those authorities approached. The authorities approached were selected to reflect a political, geographical, size, authority-type (district, unitary, metropolitan borough, London Borough).

An overall briefing was provided (see annex 1) and a schedule of questions were discussed(see annex 2).

The approaches were made on the basis that there was no additional work involved in authorities compiling or analysing data/information, there was an initial discussion / follow-up data review / follow-up discussion (as required) only, and that there was a key focus on additional expenditure pressures, particularly those arising for capital investment into the stock.

Revenue pressures arising from net inflation are of key concern to all authorities – the announcement of a 7% cap on rent increases was therefore welcomed, in the financial sense that an increase at this level might mitigate at least some of these day-to-day expenditure pressures, and in particular that such an increase might cover prospective pay awards offers for 2023.24.

Other areas of possible revenue expenditure pressures appear to be less of a concern to authorities and we have set out some commentary below.

The findings from the engagement part of this research are incorporated within the report.

[2] *https://www.gov.uk/government/news/new-professional-standards-and-stricter-regulation-to-drive-up-social-housing-standards*

2. National financial model: baseline assumptions

2.1. Core assumptions applying to the modelling

In additional to the overarching assumption around no use of reserves referenced above, the following have been adopted as key core assumptions in the model.

Capital investment in the stock

This commences in the model at the rate set out in 2022.23.

We have applied construction inflation assumptions to capital works – this is has a knock-on impact into depreciation and the transfer to the Major Repairs Reserve; we have also applied a proportionate increase in investment need arising from standard life cycle repairs needs and compared these to forecast levels of depreciation, in order to determine any additional borrowing requirements arising from capital expenditure pressures; this is estimated at c£150m pa.

In order to isolate the impact of the pressures affecting authorities' capacity to meet basic decent homes and health and safety standards, we have not assumed for this element of the modelling any large increase in those costs arising from the main additional capital expenditure pressures applying to the existing stock such as building safety, energy efficiency and initial work towards net zero carbon targets within the baseline model.

Other relevant assumptions

Right to Buy sales are assumed at 0.45%pa of the stock, gradually declining over time in line with the majority of HRA business plan assumptions being made by local authorities.

We have assumed no new build development or additional acquisitions in the baseline model so as to isolate the impact of expenditure pressures relating to the existing stock.

We have however modelled a scenario in which new build developments contribute to the investment horizon within the national HRA, modelling c2,500 homes pa in line with what we understand to be the average national position.

We have also highlighted an exemplar of the potential impact of the need for regeneration and/or redevelopment of properties as a result of poor performance, inability to reach energy efficiency targets or net zero carbon, or where the costs of doing so would be prohibitive.

We have modelled interest rates at a consolidated weighted average increase from 3.84% to just over 4% over the period to 2028; this reflects both the increase in PWLB rates compared to the current weighted average interest rate for the HRA nationally, but that any change in interest rates would be subject to a "marginal increase" given the volume of fixed debt within the HRA nationally.

Note re differential future inflation

We have aligned longer-term income and cost inflation.

If future rent policy allows rents to increase CPI+1% from 2025, so do repairs and maintenance and management costs; if future rent policy to increase rents is at CPI-only from 2025, CPI-only applies to these costs.

We regard this as a fundamental principle of future projections as this controls for any inadvertent modelling of real growth or real reduction in forecast net operating income.

It is noted that the Government did not make any announcement in the Autumn Statement towards future rent policy beyond 2025, and has committed to consult widely on this during 2023. At this stage therefore our projections make the assumption of "no change" in policy and model CPI+1% rent and cost increases throughout all years from 2023.

2.2. Cost and income inflationary drivers

These have been derived from business plans and information derived through the course of the research as an average set of factors and drivers that apply to HRAs.

Application of range of inflationary criteria differentiated between expenditure type

Table 2.1: split of operating costs by different expenditure elements

Driver	Repairs & maintenance	Management
Employee/pay	25%	65%
Contractor	50%	15%
Supplies/materials	25%	10%
Utilities		10%

The table highlights an overall average applied to operating cost elements. Some local authorities have direct labour organisations and would therefore have a higher proportion of repairs costs which are driven by employee costs. Conversely, many local authorities have only a very limited amount of direct labour committed to repairs services.

Similarly at least some repairs and maintenance costs will be driven by utility and energy costs, though we estimate that the overwhelming majority of authorities account for the "management of the repairs service" as management costs rather than as repairs and maintenance costs.

The table highlights our estimate of the broad average across all HRAs.

Application of inflation based on blend of local experiences, national forecasts, published indices

The values in the table below have been derived from a range of sources and were appropriate at the time the projections were made. The sources included: construction industry indices (BCIS-all in and BCIS-maintenance), general CPI and inflationary forecasts produced by HM Treasury, the assumptions being utilised to inform valuations of social housing stock for security purposes for private lenders into the housing association sector, as well as a range of direct feedback from authorities engaged for this research.

Table 2.2: inflationary assumptions applying to different expenditure elements

	2022.23 *	***2023.24***	***2024.25***	***2025.26***	***2026.27***	***2027.28***
General CPI		***10.00%***	***6.00%***	***4.00%***	*2.00%*	*2.00%*
*Pay award ** *	***5.00%***	***6.00%***	***4.50%***	*3.00%*	*3.00%*	*3.00%*
Contractors	***8.00%***	***10.00%***	***7.00%***	***4.00%***	*3.00%*	*3.00%*
Supplies/materials	***8.00%***	***10.00%***	***7.00%***	***4.00%***	*3.00%*	*3.00%*
Utilities costs	***30%***	***100%***	***50%***	***5%***	*3%*	*3%*
Construction	***7.00%***	***10.00%***	***10.00%***	***5.00%***	*3.00%*	*3.00%*
Real rents from 2025				*1.00%*	*1.00%*	*1.00%*

** Note that inflationary drivers affecting 2022.23 are necessary to apply to a revised operating cost base from 2023 – as inflation has been higher in 2022.23 than was provided for in HRA business plans*

*** Note that pay award inflation estimates represent an estimated conversion into %age pay increase applying to local authorities – this is different given the pay base for each authority*

Highlighted in bold are inflationary drivers which are above the long-term OBR forecast.

It must be noted that experiences vary widely – in particular for energy and utility cost inflation as authorities are re-negotiating their supply contracts.

These are averages; sensitivity to cost inflation is high and alternatives have been modelled as part of this analysis.

Additional note

As a result of the revision to national economic forecasts within the Autumn Statement, the forecast level of CPI inflation for September 2023 (therefore applying to 2024.25 rent increases) is higher than assumed within this analysis (c9%). If this is the case, it is possible that the Government might consult again on capping rent increases for 2024.25 and this would have an impact on the net revenue projections within this analysis.

3. Capital expenditure pressures

3.1. Introduction

The following sections address the key elements of additional capital expenditure as identified above.

We have adopted a benchmark approach to the financing of capital expenditure for life cycle and other investments in the HRA at a national level. This is set out below.

We have provided an introductory commentary on the assessment of additional costs relating to building and fire safety, energy efficiency and net zero carbon. As well as setting the scene for the basis on which estimates of costs are being made, the aim is to also highlight that experiences vary widely between authorities, sometimes between different types of high rise blocks within authorities, and the outputs set out below should therefore very much be seen as average estimates, subject to more detailed work locally for each authority.

Nevertheless, wherever possible, we have been able to moderate these outputs using feedback from participant authorities. In two cases, we have direct evidence of detailed energy efficiency modelling undertaken within these authorities.

In other cases, whilst authorities have not perhaps made as much progress in determining detailed estimates of costs locally, the feedback has generally been, with one or two exceptions, that the estimates appear reasonable, and certainly within predicted ranges.

In respect of building and fire safety, the analysis also draws upon work which was undertaken by Savills for the Local Government Association and the National Housing Federation in 2019, which represented an initial estimate of these amounts. Since that time, and despite the Covid-pandemic, progress towards refining assessments of these additional costs has been significant in many authorities, and DLUHC officials also collect data on work undertaken and completed especially with regards to fire safety. We have therefore utilised the previous research as a moderator to the outputs below, for example to test how costs and requirements may have moved in the last 3 years.

3.2. Core stock investment profiles

Modelling core profiles

We have made a core estimate of capital expenditure required on the stock to maintain it in its current condition, with no improvements i.e. life-cycle elemental replacements only to meet and maintain the decent homes standard, plus core health and safety requirements. This has also drawn upon our extensive evidence base of business plans for both local authorities and housing associations.

The average is £35,000 per unit over a 30 year planning period as a baseline projection for the existing stock. This represents £1,170 per property per year over a 30 year planning period.

The phasing of life cycle replacements will entirely depend on age and condition of stock locally – at the national level, we are only able to assume a "smoothed" profile average each year at this level. This is in line with the way in which depreciation is charged to the HRA, transferred to the Major Repairs Reserve and then utilised to finance capital expenditure on the stock.

The total allocated within the national HRA business plan financial model is therefore in the region of £54.5billion over 30 years at today's prices (2022.23 price base).

Potential HRA headroom for additional investment

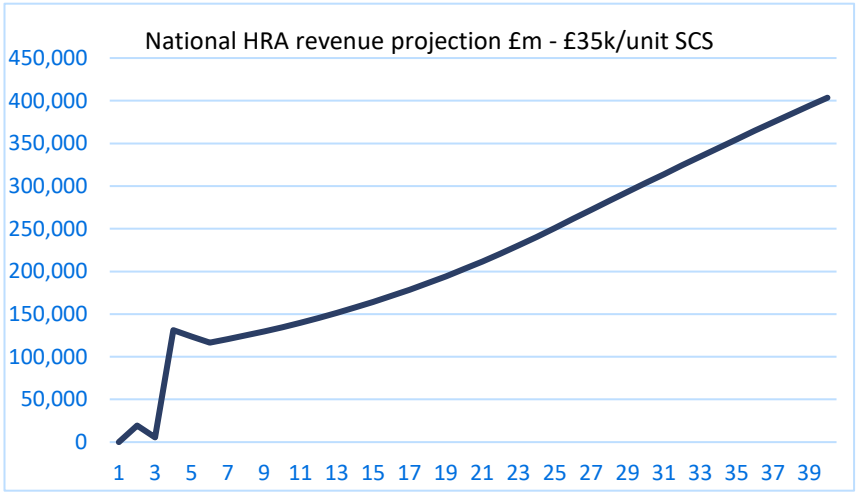
If it is assumed that the impact of any capping of rent increases does not impact directly on the amount of depreciation being allocated to the Major Repairs Reserve, and that any net revenue deficit in the HRA as a result of a 7% rent cap is covered entirely through reductions in management and day to day repairs budgets or through release of reserves, or both, then we can state that the national HRA is able to finance this level of life-cycle and elemental replacements over the 30 year period, all other factors being equal.

However, and critically, we find that an additional element of borrowing is likely to be required. This is significant as the "depreciation mechanism" plus top-up funding from revenue would otherwise be expected to cover the capital maintenance of the stock.

Notwithstanding this, when applying an aligned assumption of income and revenue cost increases over a 40-year period, at the core level of investment into the stock, there may be headroom available for additional investment up to £37,500.

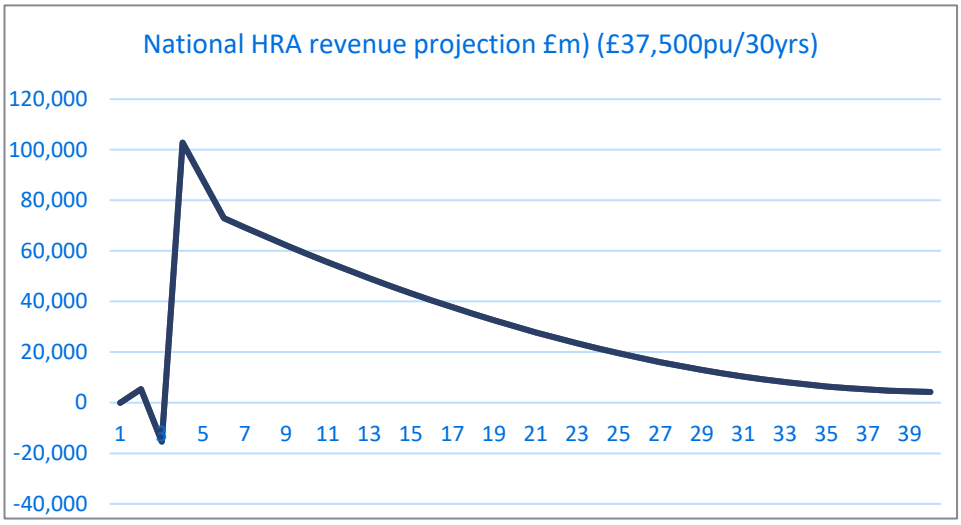
The two charts below highlight the net revenue projections below where additional investment is primarily financed from revenue but with additional borrowing of £2.2billion over the business plan period, an increase in borrowing over time of c8%.

Chart 3.1: national HRA projection with £35k/unit stock survey profile costs (£35k at today's costs)



The charts highlight that there might be headroom within the national business plan up to £37,500 per unit over 30 years, given that the projection at chart 3.2 remains at or close to a zero revenue position throughout the term of the plan.

Chart 3.2: national HRA projection with £37.5k/unit stock survey profile costs (£35k at today's costs)



Whilst this represents headroom of c7% and the potential for an increase in investment to £1,250 per unit pa at today's prices, it may be felt that this is quite limited especially when considering the scale of the additional capital needs set out below, and also taking into account that other revenue pressures will undoubtedly require addressing within HRAs locally.

Therefore, whilst some building safety or zero carbon costs could therefore theoretically be contained within this level of headroom, perhaps those costs relating to building safety ongoing costs (for example ongoing building safety cases etc), there is little or no headroom for much else.

Overall, therefore, as we have found with the rents and income work, there is little further headroom within HRAs to utilise to achieve higher standards – in fact net revenue pressures may well send the HRA projection into significant net deficit in the next 2-3 years as authorities adjust expenditure budgets to reflect the extensive inflationary pressures which may not be covered by rent increases.

3.3. Damp, mould and condensation

Following recent high profile cases of damp and mould, and the publication of the Housing Ombudsman's enquiry into how social landlords are responding to this issue[3], we also enquired with some of the participant authorities to identify whether there are any additional cost pressures emerging as a result of this issue, whether revenue or capital.

[3] *https://www.housing-ombudsman.org.uk/wp-content/uploads/2021/10/Spotlight-report-Damp-and-mould-final.pdf*

The long-term response to addressing issues around damp and mould are captured within the additional costs to deliver net zero carbon.

Currently, the profile around cases may be leading to many tenants raising issues that might not previously have been raised, leading to the need for reactive expenditure to address issues quickly.

A broad estimate of reports of damp, mould and condensation might suggest that this is prevalent in between 5-10% of local authority properties, reported annually.

The feedback can be summarised as follows:

- Addressing damp and mould issues in any property involves a visit, clearing down the walls and potentially treatment of spores in the air inside the property
- Installing a comprehensive ventilation system can be up to £6,000/unit, however experience suggests that these may not be utilised effectively in all cases
- Despite the high profile, the costs of dealing with such work are not generally felt to be significant, and focus more on administration, complaints handling and revenue expenditure;
- We are not aware of any authority (or housing association) that has adopted a specific strategy around incorporating a “damp and mould programme”.

The general sense is that landlords are reacting in the best way they can to the rise in profile, reports and complaints.

3.4. Decent Homes Plus or Decent Homes 2

The Decent Homes Standard was introduced in 2001, with the original objective to be achieved for all existing stock by 2010. Extensive programmes of additional investment were undertaken through the stock transfer and ALMO programmes in addition to the widespread re-engineering of capital programmes to focus on meeting the standard.

The original proposal for an enhanced Decent Homes Standard was made in the Social Housing Green Paper of 2018, and followed up with extensive consultation with both local authorities and housing associations following the publication of the Social Housing White Paper of November 2020[4].

Following initial consultation, however, it would appear that the Government has applied less of a focus on the notion of enhancing the Decent Homes Standard directly, to focus more on energy efficiency, insulation, and preparing for net zero carbon programmes.

[4] *https://www.gov.uk/government/publications/the-charter-for-social-housing-residents-social-housing-white-paper/the-charter-for-social-housing-residents-social-housing-white-paper*

It may have been possible to make an assessment of other related standards in the devolved nations to interpret what might have come forward for an enhanced Decent Homes Standard (specifically the Welsh and Scottish Housing Quality Standards which have generally been interpreted as higher standards). Some of those areas that were under consideration in relation to an enhanced Decent Homes Standard have been included in other programmes (e.g. energy efficiency targets by 2030). Other areas have perhaps been assumed to have already been incorporated into local authorities' investment programmes (e.g. environmental improvements) and therefore already financed to a satisfactory level by local authorities.

For these reasons, we have not made any estimate of additional work relating to Decent Homes Plus, as the standard, if it were to be implemented, is as yet unclear.

3.5. Building and Fire Safety

Introductory commentary

The Building Safety Act 2022 introduces a significant additional expenditure requirement to achieve enhanced safety in the light of the Grenfell Tower fire in 2017 and subsequent Public Enquiry.

The new Building Safety Regulator has been introduced (within the Health & Safety Executive) to oversee the delivery of safety in two key groups of buildings:

- Tall buildings - high rise blocks over 18m tall
- Building housing vulnerable people – in this context, this refers to sheltered and supported housing.

In determining our estimate of the total national cost of delivering the requirements of the Building Safety Act, we have separated the approach into the following steps.

1. Determine those components required for investment and/or improvement – capital costs
2. Determine those costs required for ongoing maintenance and management – ongoing revenue costs (which may or may not be able to be capitalised depending on local policies).
3. Identify (or estimate) the number of tall buildings over 18m, and the number of individual properties affected
4. Identify (or estimate) the number of buildings housing vulnerable households, and the number or individual properties
5. Benchmark average unit costs of delivering different components against current experiences in the market
6. Estimate the volume of work that has already been completed (for example to remove dangerous cladding)
7. Estimate a time period over which to achieve full compliance in order to arrive at a total and annual investment need relating to these elements.

It should be recognised that the cost estimates set out below are averages which are unlikely to represent anything like a median spend. Costs will either be much higher or much lower per block. This is because of the wide ranging experience of different designs of block. For example, Large Panel System (LPS) tower blocks are generally expected to have a much greater investment requirement given the nature of their design. Other blocks may require lower investment, or may be subject to works that have already been completed. The figures set out below must be seen in this context, and hence there is no attempt to break the totals down by different authorities.

Outputs: unit cost assumptions

Those components required for investment and/or improvement relating to capital and revenue investment are set out in the table below, together with the units costs identified for the overall estimate.

These costs have been, and continue to be, subject to significant inflationary pressures and represent an average of c20% inflation over the last 3 financial years.

Table 3.3: unit costs for components and elements relating to fire and building safety

	TALL	**SHELTERED**
Fire Safety / Capital Cost Measures	£/unit	£/unit
Install sprinklers	7,500	5,998
Replace fire doors	1,440	1,439
Compartmentation works	960	961
Improve fire alarm system	419	478
Replace cladding	9,452	527
TOTALS	**19,770**	**9,403**
Ongoing Management Measures	£ pupa	£ pupa
Building management resources/building safety cases, consultation and engagement	283	243
Additional compliance servicing	152	150
Intrusive surveys	11	6
BIM	14	12
TOTALS	**460**	**411**

These unit costs represent full cost of compliance with all fire and building safety standards when compared to estimates of the pre-investment position.

Outputs: number of buildings affected

We have made the following assessment of the number of building affected.

The number of units in tall buildings is estimated to be 227,941 projected forward to 1st April 2023. This is the equivalent of c15% of all properties at that date.

The number of units covering sheltered/vulnerable person housing is estimated to be 290,170 projected forward to 1st April 2023. This is the equivalent of c19% of all properties at that date.

These totals represent a 4% reduction in tall building units since 2019 and a 2% reduction in sheltered units since 2019.

The number of tall blocks totals 3,300 with an average number of dwellings of between 58-70 units per block (inclusive or tenants and leaseholders). This total cross references to DLUHC statistics which continue to estimate a total of 6,000 blocks in the total social housing sector (i.e. across both local authorities and housing associations).

Outputs: other assumptions

We have estimated that approximately 15% of the required work has been, or will have been, completed on tall buildings by the end of March 2023. This is consistent with DLUHC published estimates.

Conversely we have estimated that a much lower figure of <3% of the required work has been, or will have been, completed on sheltered/supported housing by the end of March 2023. Feedback from authorities within this research corroborated this assumption – that the focus to date has been on addressing issues relating to high rise blocks.

It should be noted that some authorities reported the ongoing requirement for waking watch and other high cost day-to-day safety type services where remedial fire related works have not as yet taken place. This was generally due to a range of factors, including the need for identification of funding to carry out the works, and the need to ensure that the works are specified appropriately with contractors.

When deriving a value for total investment still to be made in these works, we assumed that this would be over the seven-year period to 2030 and therefore included seven years' worth of ongoing revenue costs.

Overall outputs: national estimate

The table below sets out the total estimates for fire and building safety costs from 2023-2030.

The table highlights that:

- The total cost to 2030 is estimated at:
    - £4.6billion tall buildings
    - £3.1billion sheltered/vulnerable
    - **Total £7.7billion**

The average / unit across all units from this element of works not currently financed from expected investment routes such as depreciation and revenue contributions is therefore **£4,972**[5]. The total units in all HRAs within this calculation is estimated to be 1,552,295 at 1st April 2023.

This compares to work undertaken in 2019 when the estimate was £8.1billion.

There have been inflationary increases in unit costs of delivery which have been offset by a reduction in the number of units and the completion of work to many units.

[5] *Had these amounts been provided for in the self-financing settlement of 2012, they might have represented something in the region of £4billion of lower settlement.*

Table 3.4: total costs to achieve full compliance on fire and building safety 2023-2030

	TALL	SHELTERED
Fire Safety Measures		
Install sprinklers	1,453,133	1,479,408
Replace fire doors	279,072	354,858
Compartmentation works	186,048	236,905
Improve fire alarm system	81,274	117,953
Replace cladding	1,831,104	129,948
TOTALS	**3,830,631**	**2,319,072**
Average over all units	2,468	1,494
Average over affected units	16,805	7,992
Ongoing management measures		
Building management resources	451,584	493,920
Additional compliance servicing	241,920	304,584
Intrusive surveys	17,741	12,348
BIM	21,773	24,696
TOTALS	**733,018**	**835,548**
Average over all units	472	538
Average over affected units	3,216	2,880
OVERALL TOTALS	**4,563,649**	**3,154,620**
Average over all units	**2,940**	**2,032**
Average over affected units	**20,021**	**10,872**

Outputs: feedback moderation

These outputs have been tested and moderated against feedback from local authorities within this research and the feedback has been that these totals are generally within expectations.

Whilst there is no pattern differentiating between the feedback from authorities depending on the type of authority and the number of buildings affected, it must be noted that for two of the participating authorities, their experiences of the total investment requirement to achieve the building safety standards was much higher per unit, and these had a relatively high proportion of high rise buildings within their overall stock.

In one case, the number of tall blocks and therefore the number of units within these blocks was well over 20% of all units and it is therefore expected that there will be a higher cost per unit overall for this authority and those others in a similar position.

In fact, well over 10% of all tall buildings are to be found in just two local authorities[6] and further work to understand in more detail the potential costs for these authorities would undoubtedly assist decision-makers in determining the appropriate levels of resources required.

[6] *Birmingham and Southwark*

3.6. Energy Efficiency and achieving Net Zero Carbon

Commentary on methodology

The Government's policy to achieve zero carbon by 2050 places significant challenges on housing which contributes approximately 25% of all carbon emissions. The social housing sector will need to invest at unprecedented levels to meet this target, compounded by the fact that the type of work involved will present huge challenges in its delivery in terms of new technology, with all the limitations of a different skill set required, and a current lack of capacity to deliver at scale nationwide.

The approach set out below outlines the overall requirement for local authorities to meet these targets as well as consideration of meeting EPC C energy efficiency standards by 2030.

Estimates of the costs required to achieve net zero carbon must be seen in the context that there are many unknowns in respect of electricity grid decarbonisation, introduction of new technology, emerging government strategies and policies, and that it should be a long term target that gives local authorities a reasonable time frame to make some key strategic decisions linked to wider asset management strategies and objectives.

It should also be noted that there is also no real definition across the sector of what "Zero Carbon" is. We have made some assumptions below in this regard.

The Government's Heat and Buildings Strategy released in October 2021 sets out the overarching approach to achieving the 2050 goal. This strategy is principally geared towards bringing dwellings below EPC C up to this standard through fabric measures and then decarbonising heat by removing gas and switching to zero carbon technologies of which heat pumps are the general proposed solution. The approach towards the removal of gas will potentially result in increased fuel poverty and the Government has proposed to review the current renewable and other subsidy arrangements that result in a disproportionate amount being levied on electricity compared to gas tariffs.

The methodology adopted has been to model building improvements designed to reduce carbon emissions against a series of property archetypes in order to determine the cost to deliver near Net Zero Carbon. These factors have then been scaled up to the national council housing stock to give an indication of the total national cost.

The extent of measures is wide ranging but follows the principle that all fossil fuels will need to be removed and electricity utilised for heating instead.

There are various pilot schemes around the country looking at other fuels such as low carbon heat networks and hydrogen replacing gas, and some feedback from participant authorities was received in this regard, but these will require many years of trialling and external infrastructure investment before they are likely to become available as mainstream alternatives. The current cost of hydrogen is also much higher than gas and therefore it is not considered to be a solution at this time as it is a largely unknown quantity. It would be relatively easy to switch from gas to hydrogen-ready boilers in the future if the economic case were proven. The electricity grid has insufficient current capacity to enable heat pumps to take over from gas for all domestic heating and therefore the switch from gas for domestic heating will need to be phased.

Additionally, electricity is currently more expensive than gas and therefore switching fuels without reducing the amount of fuel required will result in much higher fuel bills for tenants and residents, probably resulting in increased fuel poverty.

The zero carbon agenda and fuel poverty therefore need to be considered in parallel. For this reason this analysis does not reflect switching immediately from gas boilers to heat pumps without considering the overall implications for tenants and residents and potentially being selective in respect of property types. If no additional insulation measures are carried out to a dwelling and heating is just switched from gas boilers to heat pumps, then fuel bills for the tenant could increase, perhaps by several hundreds of £ pa (our estimate is up to £300 during 2022 though this may have been subject to significant increase since).

Many local authorities have adopted targets to achieve net zero carbon before 2050. In general, working with local authorities and housing associations, we have worked on the basis that any aim to meet a target earlier than 2050 would require additional investment in renewable generation measures (for example solar PV where practicable or other offsetting) on the assumption that the grid is not fully decarbonised before 2050.

We have excluded properties built since the year 2000, a total of some 28,000 properties excluded from the overall forward projected total of 1,552,295 on 1st April 2023.

Approach to delivering Net Zero Carbon by 2050

The first stage in the strategy is therefore reducing energy demand in dwellings which involves upgrading insulation, including external walls (even those with insulated cavities that cannot achieve high levels of thermal performance due to construction type, or where cavity wall insulation has failed).

This also includes the impact of insulating ground floors although it is recognised that this will present significant challenges and in many cases will not be feasible (concrete floors will need to be taken up and replaced for example, although there are new thin insulation products coming to market that may be suitable although not yet affordable). Introducing high levels of insulation creates the potential risk of damp and mould without proper additional ventilation and therefore it is imperative that this is also introduced in parallel, especially given recent adverse publicity surrounding damp and mould in the social housing sector.

The second stage is to install alternative heating systems, sized to suit the reduced heating demand, and we have assumed that heat pumps will be the most likely technology to meet this over the next 20-30 years.

However, we recognise that technological innovation will determine actual solutions adopted in the future and these solutions will need to take into consideration the tenant mix and lifestyles. The current options are either air source (ASHP), ground source (GSHP) or hybrid heat pumps, all will require individual building appraisals to determine technical suitability and there will undoubtedly be challenges in their installation. ASHPs will require space to site the exterior unit which may not be available in blocks of flats whilst GSHPs will require external space for underground pipes and plant which again may be difficult to achieve. Existing gas boilers should therefore potentially be retained until they are due for life cycle replacement.

These two stages form the basis of our overall approach to estimating the national cost for delivery of net zero carbon.

Approach to delivering energy Efficiency to EPC C by 2030

We have assumed that the national target of achieving EPC C by 2035 for all households and by 2030 for those in fuel poverty would generally result in a target for local authority housing of 2030, given the nature of tenants and residents.

In order to achieve EPC C by 2030:

The average estimate of properties below EPC C sector wide = 39% of all properties – or 605,395.

Some of these will be "just below" EPC C and therefore we can assume may be remediated as part of the general stock survey investment programme; we have estimated this to be in the region of 25% of those properties below EPC C.

This assumption has been adopted so as to recognise that a specific programme of energy efficiency measures would not necessarily take place on properties that were one or two points below a rating of C.

It is highlighted that some authorities within this research challenged this assumption, although the extent to which programmes relating to all properties below a rating of C was unclear. Nevertheless, we regard this assumption of "just below C" to be one which may merit further research work in due course.

The number "far below" EPC C estimated therefore 75% of 39% = 454,046 properties.

Average improvement works required are £7,700 / unit, therefore a national total of **£3.495billion**.

Approach to delivering Net Zero Carbon by 2050

As above, the estimate is split into two stages:

- Stage 1 fabric (to 2030)
- Stage 2 heating/technology.

The release of the Heat and Buildings Strategy suggested that heat pumps may reduce in price as quantities for delivery increased and more became available to fit.

In fact, experience shows that the opposite has been the case with costs ranging from anywhere between £12-14,000 / pump during 2022 when the original assumption in the HBS was £5-6,000 / pump, driven by supply and labour shortages in particular. Nevertheless, the assumption over the long-term is that costs will return to the original estimates in real terms.

This is necessarily significant when considering the cost pressures arising towards commencing towards the delivery of net zero carbon now, but is also significant in the context of the Social Housing Decarbonisation Fund, second wave bids for which were invited whilst this research was being undertaken.

The total within the Fund is relatively insignificant compared to the overall totals arising from our estimates and the total Fund has to be shared between local authorities and housing associations.

Taken together, local authorities have reported a serious mismatch in assumptions within the SHDF bidding process such that the expectation is that a significantly greater amount than 50:50 matching will be required in order to achieve the project outputs at the bid level. At one participating authority we hard of a bid for £20million that may require nearly £70million of matched funding to achieve the outputs set.

These factors have been taken into account in the following:

- Stage 1 estimates per unit **£19,860**
- Stage 2 estimates per unit **£10,400**.

The application of these costs to all properties (less new build since 2000) leads to a value derived for the total gross investment need to achieved Net Zero Carbon over the period to 2050.

Working with authorities and other providers, Savills has derived a national estimate of those costs that would already be provided for within conventional stock condition survey totals (i.e. within the £35,000 per unit over 30 years referenced above).

Our estimate of the volume of works included in stock surveys is 20%.

These totals are for achievement by 2050.

To achieve earlier costs more as the volume in stock surveys reduces and the assumption of intensification costs increase, as well as the potential need to undertake additional work on offsetting as a result of the national grid not being fully decarbonised earlier than 2050. Utilising a number of exemplar authorities and housing associations within the Savills client base, our estimate is that there would be a 33% premium to achieve by Net Zero Carbon by 2040 and 50% premium to achieve by 2030.

Overall cost estimates

The table below sets out the total estimates applied to the whole local authority stock.

The table highlights our overall Net Zero estimate to be **£23billion** additional costs compared to what is currently provided for in HRA business plans across the country.

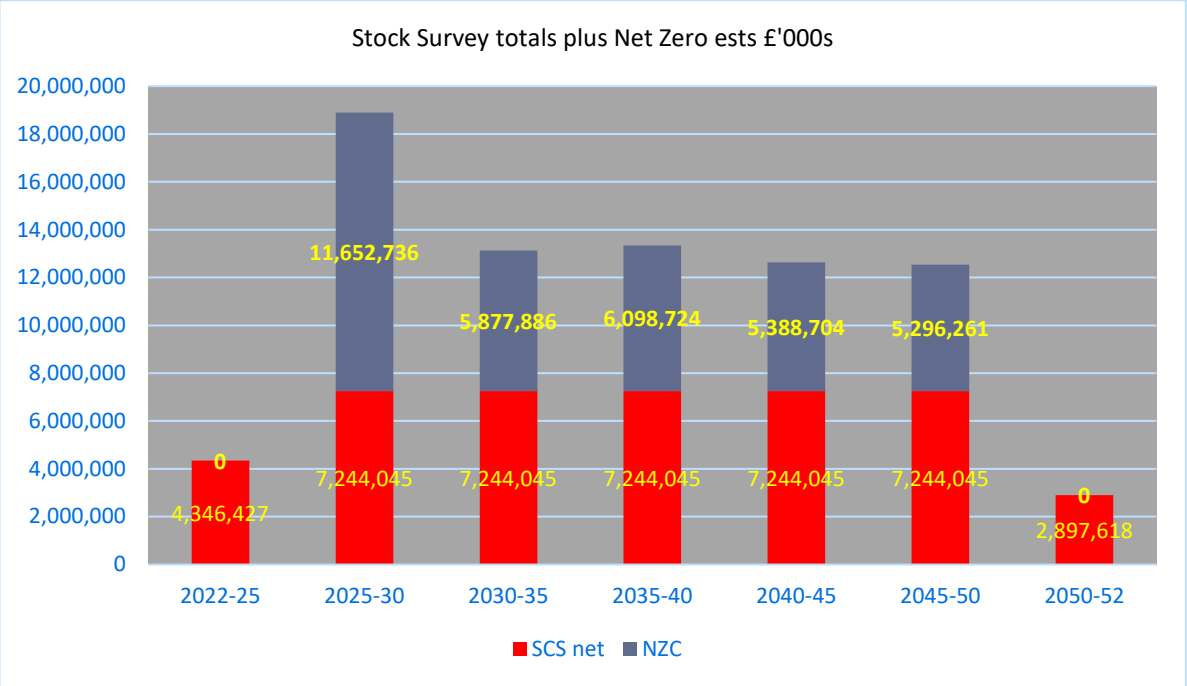
Table 3.5: total additional costs to achieve Net Zero Carbon by 2050 (2040 and 2030)

	30 year totals to 2052/53 £'000s
Initial total stock survey - £35k/unit consistent with debt settlement, financeable by business plans and applying to pre-1999 stock	**54,330,334**
%age NZC in Stock surveys	**20%**
Deduction for Net Zero Carbon within stock surveys	**10,866,067**
Stock survey elements net of Net Zero Carbon elements	**43,464,267**
Net Zero Carbon gross costs	**34,314,312**
Gross investment requirement including Net Zero Carbon	**77,778,579**
Gross / unit 30 years	**50,106**
Hence: amounts not in business plans	**£23billion**
Increase in costs to 2040 NZC	**£9billion**
Increase in costs to 2030 NZC	**£17billion**

Phasing of investment

The chart below highlights our broad estimate of the phasing of these works over the period to 2050. The chart includes 3 years to 2025, and 2 years from 2050 in order to exemplify a 30 year phasing horizon.

Chart 3.6: estimate of NZC costs phased over 30 years overlaid on stock survey totals (exc. NZC in life cycles)



It will be seen that the requirement to achieve EPC C by 2030 on the way towards Net Zero Carbon implies additional investment overall of £11.6billion in the period to 2030.

3.7. New Build and Development

One of the areas of enquiry within this research focused on the extent to which local authority new build programmes introduced and/or boosted since the abolition of the HRA debt cap in 2018 may be affected by inflation and other delivery pressures in the construction industry. Additionally, we heard from participating authorities that increases (or at least uncertainties around increases) in interest rates might also affect appetite and headroom for new development going forward.

In order to model the impact of these pressures, we followed the methodology below and tested the impact of construction industry inflation at two rates, and interest rates at enhanced marginal rates.

The inflationary drivers are assumed at either 10% (in line with general CPI) or 18%, per BCIS-Construction indices in September 2022. Interest rates are assumed to increase from 3% to 4% relating to new build borrowing only (i.e. applying to additional borrowing).

Given the very different conditions in the industry between London and the rest of the country, separate assumptions were made for each of these. The outputs are set out below, together with a note as to the assumptions made.

Table 3.7: estimate of impact of construction industry inflation and higher interest rates on new development outputs

	London	Non-London	Total/ average	Notes
Proportion of new build	40%	60%		
Assumed annual delivery	1,000	1,500	**2,500**	Estimated average delivery since debt cap lifted plus 15% as programmes grow
Average size of new build property (m2)	85	85		Mix of predominantly 2-3 bed properties
Cost per £ m2 build inclusive of fees	3,600	2,500		Benchmarked to market w/c 8.11.22
Build cost / unit £	**306,000**	**212,500**	**249,900**	
Land cost £ per m2	1,400	500		Benchmarked to land market w/c 8.11.22
Proportion of units built with free land	50%	50%		Estimate
Average cost / unit all-in dev £	**365,500**	**233,750**	**286,450**	
Subsidy (Grant or 141 RTB receipts) £	146,200	93,500	**114,580**	Assumed 40% of total cost
Financed from borrowing £	**219,300**	**140,250**	**171,870**	
Borrowing cost pa at 3% interest rate £	6,579	4,208	**5,156**	Average of new build borrowing in LA business plans
Borrowing cost pa at 4% interest rate £	8,772	5,610	**6,875**	New PWLB borrowing early December
Difference in borrowing cost £	2,193	1,403	**1,719**	
Additional subsidy requirement £	**18,275**	**11,688**	**14,323**	**Additional grant/141 requirement of higher interest rates**
Construction cost inflation 10%				
Inflation driven development cost / unit £	396,100	255,000	**311,440**	
Increase in development cost / unit £	**30,600**	**21,250**	**24,990**	
Construction cost inflation 18%				
Inflation driven development cost / unit £	420,580	272,000	**331,432**	
Increase in development cost / unit £	**55,080**	**38,250**	**44,982**	
Total development programme £m	**365,500**	**350,625**	**716,125**	**Annual total (gross)**
If no additional subsidy available				
Delivery at 10% inflation	**923**	**1,375**	**2,299**	**8% reduction in volume**
Delivery at 18% inflation	**869**	**1,289**	**2,161**	**14% reduction in volumes**
Delivery at 1% increase interest rates	**952**	**1,429**	**2,381**	**5% reduction in volumes**

The table highlights the following key outputs:

- Total delivery is estimated at up to 2,500 new homes per year, with 40% of these in London.
- Total development costs per property taking into account all costs and the potential to have to deliver 50% of new homes on non-owned land, are estimated at £286k/unit, varying between £365k/unit in London and £234k/unit in the rest of the country. Excluding any land costs, the totals are estimated to be up to £306k/unit in London and £212k/unit in the rest of the country. Experience do vary widely but these are felt to be benchmarked appropriately at November 2022.
- It is assumed for ease of reference that programmes at this kind of level are financeable through HRA business plans – a total programme of just over £700million per annum financed up to 40% by grant and/or 141 Right to Buy receipts, or other forms of revenue cross-subsidy from the HRA.
- Inflation in construction costs at 10% imply a national average increase in grant rates of c£25k/unit, which if not applied could mean a reduction of around 8% in delivery totals if additional subsidy were unable to be obtained or applied.
- Inflation in construction costs at 18% imply a national average increase in grant rates of c£45k/unit, which if not applied could mean a reduction of around 14% in delivery totals if additional subsidy were unable to be obtained or applied.
- The increase in PWLB interest rates to c4% for long-term borrowing (December 2022) compares to an average 3% assumed for new build borrowing in our participant authorities. If this is isolated as a factor, the impact would be imply an increase in grant/unit required of just over £14k/unit, which if not applied could reduce new build programmes by 5% with no additional subsidy applied.

The overwhelming majority of feedback received from participant authorities was that additional costs of construction and higher interest rates were being accommodated within existing programmes and that these challenges in themselves was not leading to withdrawal or cessation of programmes.

The impact is much more likely to be felt on programmes which commence from next year, with the very real potential for programmes to be scaled back significantly should additional grant or 141 RTB subsidy not become available.

A straightforward approach to enabling programmes to continue could involve raising the 141 RTB matching principle towards 50%. For example, the increase in interest rates of 1% suggests £14k additional subsidy requirement on average nationally, the equivalent of 5% of development costs, implying that this factor alone might suggest an increase to 45%.

Construction inflation may have a more marked impact over time if rent increases stay below increases in construction costs. Given that many authorities make an assumption of marginal costs for repairs and housing management for new build properties, the fact that new build rents are able to be at full formula rents (i.e. taking account of the CPI+1% increase in April 2023) should offer some mitigation against increased development costs.

Nevertheless, even an increase in new build rents at 11% (estimated at c£715 per average property annually based on average new build rents before April 2023 or £125/week) does not deliver sufficient additional borrowing capacity at new interest rates. Additional borrowing capacity from an 11% increase in rents is £18k/unit, which is insufficient to cover the additional costs driven by increased construction inflation (£25k and £45k/unit for 10% and 18% construction inflation respectively).

Simply put, in order to maintain programmes at the rate envisaged, increases in central grant subsidy or more flexibility around the use of RTB receipts would be required.

Variation with 100% free land

Many authorities reported that they were "running out" of free land for new development, having already completed small schemes on infill, former garage and vacant estate land. Nevertheless, it might be possible for local authorities to deliver entirely on free land if programmes remain at the level of c2,500 pa.

As a variation in the outputs above, were local authorities able to deliver 2,500 homes pa on land which is 100% free, this would represent a programme of c£625million pa.

As the proportion of grant or 141 RTB receipts which support delivery would have a greater focus towards the construction (rather than the land) element, the impact of construction inflation would be to further increase the need to increase the matching principle beyond 40%. The potential reduction in programmes without additional subsidy would be 9% from construction inflation at 10% and 15% if construction industry inflation is at 18%.

3.8. Regeneration and Redevelopment

We have highlighted the nature of increased inflationary drivers on construction costs and these also apply to regeneration and redevelopment. For such schemes, there are also additional challenges around the financing of demolition and re-build, particularly when Affordable Homes Programme grant is only available to cover the additional units delivered as a result of the regeneration.

One participating authority highlighted the issues associated with this situation at one of its key regeneration sites. More details are available at annex 3.

Every single one of the authorities participating in this research referenced the need for a fresh look at this issue given the nature of investment requirements into the existing stock for building safety, energy efficiency and net zero carbon. Many properties will not be economic to bring up to these standards, and for a significant minority, it will not be possible to meet those standards.

The inability to be able to draw Affordable Homes Grant for anything other than "additional" units is seen as a significant barrier to bringing these schemes forward.

We have discussed with partners and participating authorities that there may be a case for redirecting an amount of what might otherwise be resources required to achieve net zero carbon towards the financing of regeneration and redevelopment where it is either unlikely that existing properties will achieve net zero or where it is uneconomic to do so.

A high level summary example is set out below to illustrate the point.

- Current properties all negative NPV with net zero investment added to capital costs over 30 years (say) 200
- Redevelopment potential: 250
- Affordable Homes Programme (AHP) grant for "additionality" only: £100,000 x 50 additional homes -> £5m
- The challenging stock types for this scheme mean that net zero costs are much higher than average (say) £50k/unit
- Hence the net zero "cost avoided" -> £10m, which if diverted to become AHP grant across the whole scheme contributes towards replacement as well as additional homes
- Total redevelopment costs @ £250k/property -> £62.5m

If this was a new build scheme, AHP might be available at £25m (£100k x 250).

As it is a regeneration scheme, under current programmes the additional AHP is £5m.

The above approach releases £15m – leaving a remaining £5m subsidy gap but perhaps making the difference between the HRA being able to sustain the investment or not.

In addition, for example, the avoidance of negative NPV exerting a drag on the HRA business plan may put the HRA in a stronger position to contribute towards the costs (on the same "cost avoided" basis).

This approach could therefore allow complex and necessary regeneration schemes to come forward which may not otherwise, and the methodology therefore worthy of further consideration. An exemplar from one local authority is included at annex 3 which summarises the regeneration dilemma facing many authorities.

Diverting NZC cost avoided to support regeneration: national overview

Drawing upon our Asset Performance work with housing associations and local authorities, we estimate that an *additional* c40-45% of stock would be net negative Net Present Value (NPV) on standard asset performance evaluation assumptions inclusive of NZC spend. This is an important measure as, other things being equal, a net negative NPV might conventionally lead a social landlord to review the options, and to appraise whether to invest in the property "as is" or whether to redevelop and re-provide.

The commentary below introduces what the approach might be at the national level.

The current net negative NPV of local authority stock applies to an estimated 25% of the stock overall. With the additional of net zero carbon, this increases to c55%-60%.

Whilst the average of negative NPV would be c£15,000 for all properties that are negative, many of these may be "just below" zero and investment to achieve net zero justified. It is assumed therefore that where net zero costs make negative NPVs lower than c£15,000 per unit negative, these may be subject to appraisal for regeneration or redevelopment purposes.

Our estimate utilising information derived from asset performance evaluations at over 50 housing associations and 20+ local authorities suggests that this number might be c540,000 properties.

We estimate that the average costs to achieve net zero for these properties would be £30,000 per property (compared to the average of £22,106 across all stock). Applying this to these properties suggests a "net zero cost avoided" of c£16.3billion.

Whilst not always the case, we would expect in general that replacement stock would achieve a premium on density, of 15%. This will vary widely but is felt to be a realistic average, suggesting 620,000 replacements, an addition of 80,000 to the stock.

Applying an average £250,000/property development costs (national average), this suggests a programme of £155billion – which would of course be over an extended period. AHP grant applying to the entire amount if all new build at national average £80,000/property would be £43billion, suggesting that, all other factors being equal, this would be the requirement for capital subsidy to achieve viability for the programme.

This suggests for "additionality only" AHP grant of £8billion, a very small proportion of the overall costs, leaving a "subsidy gap" of £35billion.

Applying "net zero costs avoided" would provide £16millon, nearly half of this subsidy.

The remainder would need to be assessed on an HRA by HRA basis but could come from rent premium applied to replacement stock where the prospects for the HRA overall is improved by removing negative NPV stock and replacing it with positive NPV, net contributor, stock.

In our view, as a combination of local authorities and central government together would be required to spend £16billion in the period to 2050 in any case, whether to achieve net zero or to provided subsidy for replacement and regeneration of those properties where it is uneconomic to bring to net zero, the above approach therefore merits further detailed work on assessing the potential implications. Over (say) a 17 year period to 2040, the additional Affordable Homes Programme implied would be less than £1billion a year.

4. Revenue expenditure pressures

4.1. Revenue inflationary pressures

For completeness, we have set out below the main additional revenue pressures arising from this analysis. As set out in section 2 above, there is a summary below of the additional inflationary pressures applying to revenue expenditure in the HRA, developed in parallel with our analysis of income and rents.

These have been derived from business plans and information derived through the course of the research as an average set of factors and drivers that apply to HRAs.

Application of inflation based on blend of local experiences, national forecasts, published indices

Table 4.1: inflationary assumptions applying to different expenditure elements

	2022.23 *	***2023.24***	***2024.25***	***2025.26***	***2026.27***	***2027.28***
General CPI		***10.00%***	***6.00%***	***4.00%***	*2.00%*	*2.00%*
*Pay award **	***5.00%***	***6.00%***	***4.50%***	*3.00%*	*3.00%*	*3.00%*
Contractors	***8.00%***	***10.00%***	***7.00%***	***4.00%***	*3.00%*	*3.00%*
Supplies/materials	***8.00%***	***10.00%***	***7.00%***	***4.00%***	*3.00%*	*3.00%*
Utilities costs	***30%***	***100%***	***50%***	***5%***	*3%*	*3%*
Construction	***7.00%***	***10.00%***	***10.00%***	***5.00%***	*3.00%*	*3.00%*
Real rents from 2025				*1.00%*	*1.00%*	*1.00%*

** Note that inflationary drivers affecting 2022.23 are necessary to apply to a revised operating cost base from 2023 – as inflation has been higher in 2022.23 than was provided for in HRA business plans*

*** Note that pay award inflation estimates represent an estimated conversion into %age pay increase applying to local authorities – this is different given the pay base for each authority*

These values have been derived from a range of sources and were correct at the time the projections were made. The sources included: construction industry indices (BCIS-all in, BCIS-construction and BCIS-maintenance), general CPI and inflationary forecasts produced by HM Treasury, the assumptions being utilised to inform valuations of social housing stock for security purposes for private lenders into the housing association sector., as well as a range of direct feedback from authorities engaged for this research.

Highlighted in bold are inflationary drivers which are above the long-term OBR forecast.

It must be noted that experiences vary widely – in particular for energy and utility cost inflation as authorities are re-negotiating their supply contracts.

Additional note

As a result of the revision to national economic forecasts within the Autumn Statement, the forecast level of CPI inflation for September 2023 (therefore applying to 2024.25 rent increases) is higher than assumed within this analysis (c9%). If this is the case, it is possible that the Government might consult again on capping rent increases for 2024.25.

General outputs

Consolidated inflationary pressures utilised in rents and income modelling to determine forecast net deficits are set out below.

Table 4.2: Consolidated inflationary pressures modelled to determine forecast net deficits

	2023.24	2024.25
Consolidated repairs inflation	9.20%	6.40%
Consolidated management inflation	16.40%	9.35%

In summary, the total of 5 years of expenditure at 3% inflation – would be **£25.5billion,** whereas the total of 5 years of expenditure at the enhanced inflation set out in the tables above is **£30.6billion**,

The additional cost pressures arising from cost inflation for revenue excluding depreciation/major repairs is therefore c**£5.1billion** over 5 years from 2023 to 2028.

The Government has announced maximum rent increases of 7% for non-supported housing rents for 2023.24. If authorities increase rents at this rate, there will be mitigations against the increases set out above.

However a rent increase at this level will not address all of these pressures and authorities will need to find savings or apply reserves – our estimate of the **"required rent increase" to meet all these costs is c8.25% nationally** (varying between 7-9% across participant authorities). Our estimate through the income research was that c5% of management and maintenance costs may require to be saved in real terms to balance the HRA going forward.

Rent increases below this level will lead to further revenue deficits.

4.2. Enhanced consumer regulation

There is the potential for additional costs arising from enhanced consumer regulation in three general ways, as follows:

- The additional administration associated with collecting and reporting on the newly introduced Tenant Satisfaction Measures from April 2023, and administration associated with running four-yearly inspections from the Regulator. Feedback from participant authorities suggested that these may be limited to one or two members of staff, and that this might not necessarily be a single role. Feedback therefore suggested that there would be a very limited, hence immaterial, impact on new staffing requirements arising as a result of the implementation of this regime

- The requirement for a responsible officer within a local authority to be accountable for landlord services. The feedback here was primarily that whilst authorities are aware of the need to implement more robust frameworks for accountability in the delivery of landlord services, that thinking was at an early stage and therefore any additional costs unquantifiable at this time. The overwhelming sense was that lead members and corporate directors within authorities will need to become more focused on assurance around standards of service delivery for landlord services, but that whilst it might be possible to envisage new roles to support these accountability frameworks, the costs of th3ese were likely to be able to be absorbed within the establishment.

- A requirement to increase service levels to achieve standards that may not currently being achieved.

Unsurprisingly, authorities did not state in discussions that there were any issues in relation to meeting the consumer standards currently; it is unlikely that even if authorities were aware of service failures or challenges around compliance now, that this would have been shared with us during this research.

The overwhelming feedback from authorities has therefore been that the additional costs are generally containable within establishments and existing budgets given that they are not generally material to the amount spent on housing services.

4.3. New professional standards

The Government has announced its intention to "drive up" standards of professionalisation within the housing industry as a means to enhance regulation[7].

Discussion with some participant local authorities suggested that it was a little early to try to estimate the potential impact of such changes.

One potential way of looking at this issues may be through estimating the number of housing staff that might be required to become professionally qualified and the premium in remuneration that might be payable upon qualification, as follows:

The estimated cost of staffing in housing management across all local authorities (including ALMOs) is c£2.2billion pa.

Many of these costs relate are administrative, technical or professionally qualified staff in other disciplines (for example surveyors, accountants, senior managers). Taking into account feedback received from authorities within this research, Our estimate of the number of front-line housing staff that might be affected by a need to become "professionalised" is around 20-25%, affecting housing officers, neighbourhood officers, and all associated disciplines within housing and tenancy management.

Were these to be required to become qualified and receive a pay premium of (say) 10%, then the additional pressure on staffing budgets might be in the region of c£50million pa, though we think this is highly speculative given the uncertainty around what any new professional standards might mean.

Further work would be required in this area in due course to make a firmer assessment of possible additional costs.

[7] *https://www.gov.uk/government/news/new-professional-standards-and-stricter-regulation-to-drive-up-social-housing-standards*

5. Commentary on engagement with local authorities

5.1. Introduction

We have set out below a summary commentary of the engagement with local authorities for this element of the research.

Where necessary, individual feedback has been anonymised and/or collated into an overall view.

It should be noted that whilst the feedback set out below was very broadly consistent in many themes, also acknowledged that the majority of the feedback was received during the consultation period on rent cap, there were some key differentials between authorities in respect of capital costs for building safety and net zero carbon.

5.2. Key themes

Within asset management strategies and business plans, estimates of the additional capital expenditure pressures on the existing stock arising from the following key drivers:

- *Fire Safety*
- *Building Safety*
- *Energy Efficiency*
- *Decent Homes "Plus"*
- *De-carbonisation / towards net zero*

The principle observations made by all authorities included:

- The costs of retrofitting for zero carbon utilising pilot initiatives (such as Energisprong, Passivhaus) are considerably in excess of the averages utilised in this analysis – in some cases locally averaging up to £55,000 per property. It is acknowledged by authorities however that these are pilots and that a) the price of the technology is likely to come down over time and with more delivery and b) that not all properties will need this degree of retrofit.

- Whilst experiences of the need to achieve EPC C by 2032 varies widely within the group of authorities, with one authority with 90%+ compliance and another as low as 60% compliance currently, no business plan is able to sustain the full delivery of Net Zero Carbon on any meaningful estimate of the total cost. There will be a requirement for other sources of finance to address the challenge over the long term.

Experiences of inflation applying to elements of the capital programme

The experiences reported by authorities are consistent with the estimates made in this report and analysis, with provision of at least 10% being made for 2023.24 and many cases, higher provision than this.

Development programme and/or a programme of regeneration or development - experience of construction cost pressures in the last 2-3 years, projecting for future rates?

The experiences are consistent with the factors set out in this report and analysis. The experience of cost pressures appears to be being particularly felt within London with shortages of labour and materials adding to the increasing cost pressures.

One authority had a contractor go into liquidation whilst on site leaving an unfinished development; whilst not common, there are examples of this pressure across the country.

Impact of latest pay award offer to local government on projections going forward.

The latest pay award offer (£1,925 per annum flat rate) has a differential impact on the increase in the pay bill depending on the pay scales and remuneration of staff within the landlord service. Participant authorities reported that this was generally between 5% (in London) and up to 8-9% in one northern authority.

Experiences of inflationary pressures on contractors, suppliers, materials and utilities?

Experience son utilities and energy costs vary very widely, with the largest increase during 2022.23 reported at over 400% and the lowest reported at c58%. Providers and brokers continue to be very unwilling to commit to longer-term deals hence there is a tendency to price in significant additional costs for longer (3 year) contracts.

Balance of inflationary drivers within management and maintenance budgets? Proportion of management and maintenance costs are employee costs

The findings have been utilised to inform the estimates of cost splits within this research.

Where cost pressures apply to communal costs that would ordinarily be recovered through increased service charges, appetite to pass these increases on.

This remains a live issue as rents and service charges for 2023.24 are being set during this budget round. During the period of research (August-October 2022), authorities generally reported that members would be unlikely to want to pass on high service charge increases to tenants in flats, although the appetite for such increases was much stringer in London and southern authorities.

Thoughts on how government might ameliorate the biggest impacts of these inflationary pressures

The main focus was to provide additional capital grant support for energy efficiency and Net Zero Carbon.. there was no appetite for new forms of revenue subsidy in generally though a key theme was that the passing on of grants during the Covid pandemic had worked well for many HRA landlords and that one area where additional support was particularly relevant might be on energy and utility costs.

Social Housing (Regulation) Bill in parliament, additional expenditure pressures arising from proactive consumer regulation, inspection and the introduction of statutory reporting to tenants and residents

See main narrative above, whilst authorities felt that there would be some additional administrative costs, it is not possible to quantify these at this point, and in any case there was an unwillingness to share any view that suggested that consumer standards were not already being met.

Annex 1: Copy of briefing letter for participant local authorities

Dear

Local Government Association Research into the Housing Revenue Account

Savills Affordable Housing Consultancy has been jointly appointed by the Local Government Association, and its partners the Association of Retained Council Housing and the National Federation of ALMOs, to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA).

There are three projects in total, each addressing a key area for review and exploration:

1. HRA Expenditure: incorporating a review of expenditure pressures affecting services provided to council housing within the HRA including: landlord services and housing management, building safety, net zero carbon and other pressures.

2. HRA income: incorporating a review of income pressures, possible alternative approaches to rent policy, future rent increase policy and all other areas of income.

3. Towards a more sustainable Right to Buy: not challenging the RTB policy itself but researching and exploring issues around sales volumes, the operation of discount levels, the recycling of RTB receipts – aimed to come up with some thoughts around future policy ideas to make the policy more sustainable for local authorities.

For each of these research projects, the LGA and its partners are keen to engage with example/case study local authorities in order to test our modelling outcomes in a “real life” environment and to gather local insight into the challenges faced by local authorities. In identifying these exemplar groups, we hope to be able to enhance the findings of financial modelling and analysis research and to ensure that experiences “on the ground” are captured for the benefit of the research. The work will help to inform policy positions for the LGA and the two trade bodies for the forthcoming Spending Review in the autumn of 2022.

We have agreed with the LGA and its partners that engagement with exemplar local authorities should reflect a balance of geography, size, type, political leadership and known exemplars of good practice, and have nominated 12 authorities for each project with a core of 5 authorities involved in all. We have agreed that it would be really helpful to involve your authority in the HRA Expenditure project.

We anticipate that the engagement will incorporate the following:

- An initial meeting (via Teams or Zoom) to discuss the nature of the project in more detail and to set out what we are looking for in terms of our engagement
- A follow up review of the key issues emerging within the review, testing assumptions around cost assumptions across a whole range of expenditure areas, both revenue and capital
- Capture in particular your authority’s approach to assessment of future capital investment liabilities towards your existing stock (decent homes 2, building safety, energy efficiency, net zero carbon)

- Capture your authority's approach to the impending implementation of a more proactive regulatory regime towards the Regulator's consumer standards and any associated cost implications
- In the short-medium term, your authority's experiences of inflationary pressures (revenue, capital and development) and the responses you are identifying.
- Capture any areas of positive and best practice for exemplification within the research reporting.

We would discuss any requirements for anonymity and we have an unequivocal commitment to share details of exemplar authorities strictly only if agreed by you.

In the first instance, I would be grateful if you could confirm that you and your colleagues are comfortable to participate in the research, and if so, who would be invited to an initial meeting to discuss the research and information needs. Assuming you are able to confirm, I will follow up with a more detailed spec for the project and initial discussion, and any in-advance information needs along with a request for dates from my colleague Robyn Law (robyn.law@savills.com).

We expect the work to take place during the course of the summer and early autumn, notwithstanding the holiday period.

I very much hope that you will feel able to engage with the project and I look forward to meeting with you shortly.

In the meantime if you wish to discuss any further information or background, please do not hesitate to get in touch. You can speak to the Savills team, led by myself (steve.partridge@savills.com 07968 354948) and Simon Smith (simon.smith@savills.com 07815 612458), or the following trade body representatives:

- LGA: Calum Davidson calum.davidson@local.gov.uk
- ARCH: Matthew Warburton matthew.warburton@arch-housing.org.uk
- NFA: Chloe Fletcher chloe.fletcher@almos.org.uk

Thank you for your attention to this letter and I look forward to catching up with you shortly, and working with you on this research.

Annex 2: Copy of questions/topics for discussion

Local Government Association Research into the Housing Revenue Account

introduction

The aims of the LA engagement element of the research are to:

- Moderate the modelling we are undertaking at the national level, to ensure that our assumptions are based on as wide an evidence base as possible
- Understand the income, expenditure and RTB pressures facing authorities – picking up particular pressures applying in particular locations or authority areas
- Provide an opportunity for authorities to feed ideas for change into the research.

Following an initial discussion, we may ask you to provide some further information, but I would emphasise that we would only ask for information that is readily available, and nothing that involves any additional work to compile. All information will be aggregated and anonymised.

Expenditure Project: discussion prompts

Capital expenditure pressures

2. Within your asset management strategy and business plan, have you estimated the additional capital expenditure pressures on the existing stock arising from the following key drivers:
    - Fire Safety
    - Building Safety
    - Energy Efficiency
    - Decent Homes “Plus”
    - De-carbonisation / towards net zero

   If so, how much and what impact do these have on the plan?
   If not, what timeframes are you intending to carry out the work?

3. What are your experiences of inflation applying to elements of the capital programme?

4. Do you have a development programme and/or a programme of regeneration or development? If so, what has been your experience of construction cost pressures in the last 2-3 years, and what are you projecting for future rates?

Revenue expenditure pressures

5. Noting the latest pay award offer to local government, have you modelled the average percentage increase across all staff? What allowance have you made in the budget and business plan for pay awards going forward?

6. What are your experiences of inflationary pressures on contractors, suppliers, materials and utilities?

7. What is the balance of inflationary drivers within your management and maintenance budgets? What proportion of your management and maintenance costs are down to employee costs? For example, do you have a DLO or are repairs 100% contracted out?

8. Where cost pressures apply to communal costs that would ordinarily be recovered through increased service charges, do you think there is appetite to pass these increases on?

9. Do you have any thoughts on how the government might ameliorate the biggest impacts of these inflationary pressures?

Consumer Regulation

10. With the passage of the Social Housing (Regulation) Bill through parliament, do you think there will be additional expenditure pressures arising from proactive consumer regulation, inspection and the introduction of statutory reporting to tenants and residents?

11. Communal costs are increasing – in ordinary circumstances these would be passed onto tenants and leaseholders; given the massive increases in (for example) utility costs, do you think that members will have the appetite to pass on such increases as increased service charges?

Other issues

12. Are there any other issues or experiences around expenditure, inflation, capital or revenue, that you would like to flag?

13. Are there any other issues around the HRA more generally that you would like to flag?

Annex 3: Regeneration case study: Gleadless Valley, Sheffield

The following summary has been provided courtesy of Sheffield City Council and serves to highlight the regeneration dilemma facing local authorities.

Introduction

Following the political approval of the Gleadless Valley Masterplan Regeneration Project and the requirement to determine funding for the different elements of the Project, it has been decided to deliver and finance the new build element of the project (197 units with a budget of £54m) using the existing Sheffield City Council Stock Increase Programme which is contained within the HRA Business Plan.

The Stock Increase Programme aims to increase the existing Council's housing stock by directly delivering new build homes and purchasing new build and existing properties from the private market.

Funding

The general premise of the funding for the Stock Increase Programme is to use 70% HRA borrowing and 30% funding from various sources including Homes England, South Yorkshire Mayoral Combined Authority (devolved regional resources), 141 Right to Buy (RTB) receipts, general capital receipts and S106 contributions. As for most local authorities, general capital receipts and S106 contributions are relatively small sources. The recent change in the spending rules means that 141 RTB receipts can now be utilised for up to 40% of the development costs of a project.

As for all funding, there are limitations on the use of certain funding streams and one particular restriction that causes an issue with integrating the proposed Gleadless Valley new builds into the Stock Increase Programme is the ability to only use funding when providing additionality.

The proposed new builds are a mixture of replacements (88 properties), following planned project demolitions, and additionality units (109 properties). The primary source of external funding is from Homes England through the current Affordable Homes Programme. This funding can only be used for units that provide additionality and will not fund replacements and therefore will only fund 109 out of the 197 proposed new build units.

Because of the way in which 141 RTB receipts are treated in the national accounts (i.e. in exactly the same way as AHP grant), the second main source of funding (i.e. 141 receipts), is not only unable to be utilised to add to AHP grant for additional properties but also unable to be used to finance replacements. As a result, the Council will have to fund the replacements using 100% HRA borrowing – from which there would be knock-on impact that disrupts the Stock Increase Programme and reduces the overall amount of new builds that can be delivered.

It must also be noted that, due to the cost and viability challenges the industry is currently facing, and the additional cost to deliver on brownfield sites (compared to vacant greenfield sites), in using Homes England Affordable Housing Programme funding, the funding received will not hit the 30% of development cost required to balance our current funding model, leading to additional borrowing required by the HRA or a reduction in the overall units that can be delivered for the programme budget that has been set.

This is exemplified in the following table representing a summary of the position for the Gleadless Valley regeneration:

			Financing £million		
	UNITS	Budget £m	RTB141 (40%)	HE (£50k per unit)	HRA BORROWING
Additional properties	109	29.252	5.450		23.802
Replacement properties	88	24.767	-	-	24.767
Total programme	**197**	**54.019**	**5.450**		**48.569**
	%age resourcing			10%	90%

Costs

The development of the Gleadless Valley Masterplan Regeneration project is at an early stage and the activity will be increasing to move the project forward early in 2023. Currently the costs identified for the project are represented in early stage cost plans and were carried out by the project team with their consultants before the current market conditions and inflation levels that are affecting the market.

With that in mind, the budgets currently identified will need a major refresh to establish what is affordable within the current set budget envelope and to manage the expectations of the stakeholders and consultees.

Conclusions

If the costs are taken as an example of the expected costs for the remainder of the Gleadless Valley new build programme, delivering the total proposed units will be very challenging without additional government / subsidy support within the current budget envelope, otherwise risks will fall on the HRA.

The consideration of the market value of the properties, in comparison with the cost to the HRA of the developments, is also a major consideration when redeveloping council housing estates and cost of regeneration whilst also mitigating the future RTB risk.

In order to help this delivery, Homes England would need to increase their funding per unit, particularly if the RTB Receipts also cannot be used to part-finance the anticipated replacement properties.

In this case the Government and Homes England would need to rethink the current restrictions on funding and funding streams to enable much needed development of affordable homes and the wider estate regeneration.

The Council's relationship with Homes England is very strong but they also struggle to provide the level of support we need to deliver a comprehensive council-stock based regeneration programme.