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Accountant

Housing Revenue Account Business Plan 2021 to 2051

Purpose

- 1.1 This report seeks approval for the updated Housing Revenue Account (HRA) Business Plan, its associated rent increases and capital programme. The HRA Business Plan sets out the 30 year investment strategy for the management and maintenance of the Council's housing stock together with investment proposals for additional homes.
- 1.2 Despite increasing pressures in recent years, the HRA remains in a relatively strong position. It can meet the immediate management and maintenance requirements of the Council's housing stock, together with the investment ambitions for additional homes, and the modelled business case requirements over the 30 years of the business plan.

Recommendations

- 2.1 To approve the 2021/22 update of the rolling 30 year HRA Business Plan, as set out in the body of this report.
- 2.2 To approve funding for an expansion of the new homes programme as part of the Council's capital programme as set out in paragraph 4.7.4 and appendix 1.
- 2.3 To approve the 2021/22 management and maintenance fee paid to Derby Homes as set out in paragraph 4.10.4 and 4.10.5.
- 2.4 To approve changes to rents and service charges as set out in paragraph 4.12.1.
- 2.5 To approve the continuation of the capital programme for the years 2021/22 to 2023/24 in appendix 1 and to approve Derby Homes directly managing the schemes attributed to them in appendix 1.

Reasons

- 3.1 Housing is a long-term asset and it is important that a longer term view is taken around asset management. Approval is sought for the proposed 2020/21 to 2050/51 update to the rolling 30 year HRA business plan. This sets a strategy to manage the HRA into the future.

3.2 The necessary rent and service charge changes form key aspects of the HRA Business Plan

Supporting information

- 4.1 The HRA is a ring-fenced account which controls the Council's social housing stock which is managed on a day to day basis by Derby Homes Ltd, an Arms' Length Management Organisation (ALMO).
- 4.2 The HRA Business Plan supports the previously agreed key social housing objectives:
- Providing good value for money for tenants and the Council
 - Maintaining investment in council housing to the Derby Standard
 - Sustaining high quality management and reactive repairs services
 - Maintaining affordable rent levels
 - Delivering more additional affordable and supported homes
 - Working to support broader Council initiatives and priorities
- 4.3 The priority of the housing service is to manage, maintain and invest in the existing stock at levels agreed with tenants. The Business Plan needs to facilitate this. Derby Homes encourages tenants and leaseholders to get involved in management and customer involvement processes to help to ensure that existing tenants' priorities are both reflected in, and delivered by, the plan.
- 4.4 The Council owned 12,691 homes as at 1 April 2020, of which a third are flats and two thirds are houses. Almost half the stock is made up of three bedroom houses with the balance being mainly one or two bedroom homes. There are very few larger properties, with most of these having been lost through Right to Buy (RtB) sales over the years. There remains a significant pressure on four bedroom properties and consequently one aim is to increase stock of that size.
- 4.5 The HRA remains in a reasonably robust position due to close management and control with a balance of £47m (excluding the Major Repairs Reserve) as at 1st April 2020. It is able to support investment and service delivery aspirations over and above the core management, maintenance and investment requirements. The lifting of the debt cap in 2018/19 by the Ministry of Housing Communities and Local Government (MHCLG) gives greater flexibility in budget setting and has enabled the plan to be more ambitious in terms of funding more new homes in future.
- 4.6 While the HRA and Business Plan is positive for the Council tenants of Derby, the HRA still faces the challenge of Right to Buy stock losses. Sales have been fairly consistent in recent years, with 169 sold in 2019/20, 173 in 2018/19, and 185 in 2017/18. During 2020/21 there have been 67 sales to the 30 November 2020. RtB sales reduce the rental income the Council receives and therefore impacts on future years' budgets. Housing stock must be replenished through the new build and acquisitions capital programme.

4.7 Capital Programme

The proposed capital programme covers both the development and acquisitions of new homes and major maintenance works.

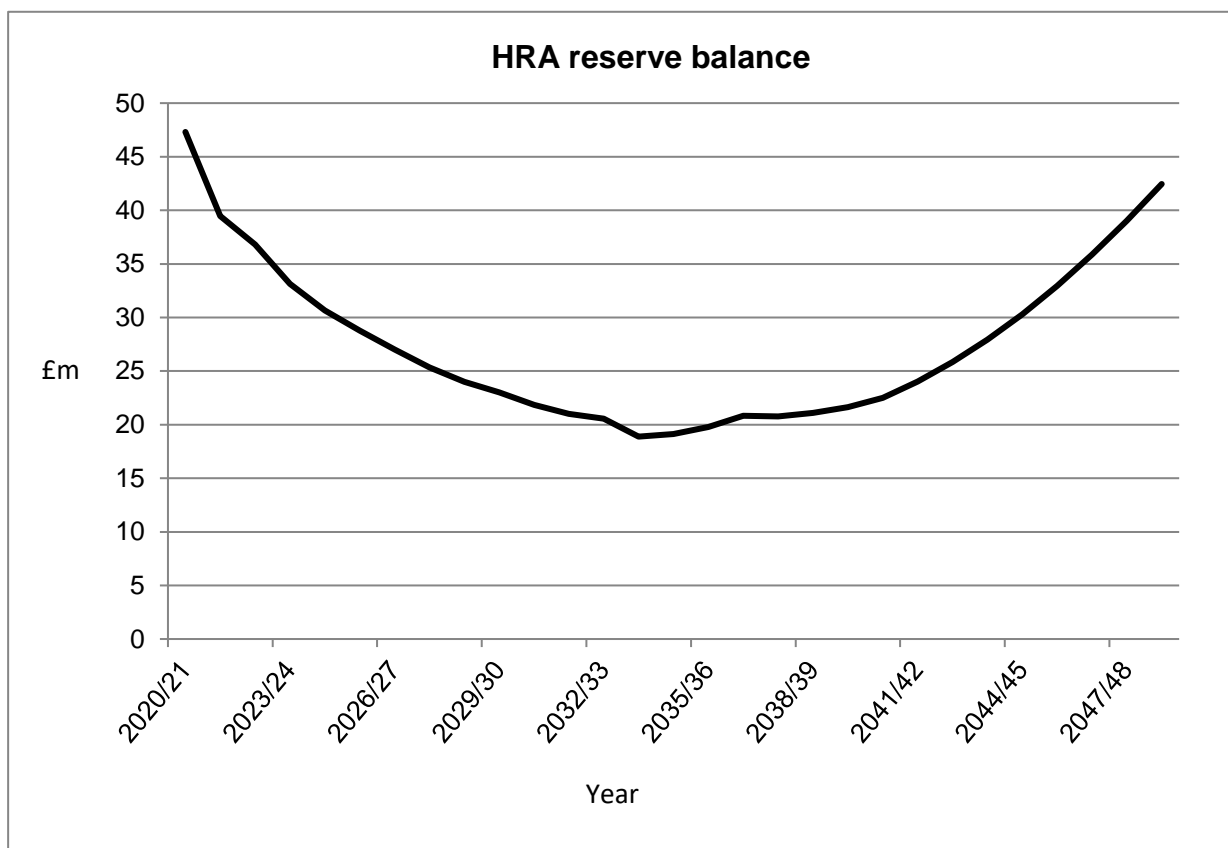
- 4.7.1 With the removal of the debt cap, the HRA can be more ambitious in terms of development and acquisition of new homes. It is planned to increase the programme to acquire or build around 500 homes within the HRA over the next four years.
- 4.7.2 The purchase of empty properties will be actively explored where there is a viable business case and the homes are suitable for inclusion in HRA housing stock.
- 4.7.3 In terms of the capital maintenance programme, this is managed by Derby Homes alongside the revenue maintenance programme. The priorities for investment are
- The replacement of building components within the lifecycle agreed in our plans.
 - Energy efficiency; 30 new bungalows on a site at Grange Avenue to very high standards of energy efficiency that will give an insight into the Government's new future home standard.
 - Enhanced energy efficiency improvements to seven blocks of non-traditional flats in Mackworth, these are the last few homes without wall insulation and our aim is to insulate the walls and provide low carbon heating, supported by solar panels.
 - A refurbishment of Rivermead House. New windows, balcony fronts, side screens and a new roof are required along with a detailed survey of the building and other maintenance work.
- 4.7.4 The summarised position for the capital programme for 2021/22 to 2023/24 is shown below, with the detailed capital programme set out in Appendix 1. As new scheme acquisitions arise through the year, approval will be sought to bring them onto the programme as they become live.

	2020/21 quarter 3	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Major works	9,930	16,283	17,063	15,969
New Homes	13,597	27,987	16,853	14,545
Total	23,527	44,270	33,916	30,514
Funding				
RTB Receipts	4,079	8,381	5,056	4,364
Borrowing / Major Repairs Reserve	19,448	35,874	28,860	26,150
No of New Homes	108	100	107	196

Expenditure on new homes tends to span financial years, therefore there is not always a direct correlation between in year budget and the number of new homes delivered.

- 4.8 During 2020/21 the Council was successful in bidding for £1.2m Ministry of Housing, Communities and Local Government (MHCLG) Next Steps Accommodation Programme capital grant funding. Alongside £1.2m HRA match funding, this is enabling the purchase of 20 homes which will provide supported accommodation for those currently rough sleeping or in emergency accommodation. These homes are included in the table above.
- 4.9 When approved, the 2020/21-2022/23 capital programme included an indicative Extra Care scheme (supported housing). The Council remains committed to providing suitable accommodation for older people and Extra Care housing is key priority for the Council. Several sites across the city are currently being looked at to assess their potential suitability for a scheme.
- 4.10 **Revenue**
The HRA Business Plan is under much greater strain now than it was five years ago as it is no longer operating at significant revenue surpluses. The budgeted position for 2021/22 is a deficit of around £2.8m and will rely on the use of the HRA's reserves. The main reasons for the deficits are:
- the loss of income due to RTB stock losses
 - the loss of income due to the 4 year period of rent reductions
 - entering a period of investment into the housing stock

- 4.10.1 The 30 year business plan allows us to plan over the longer term and assess the impact of the deficits on the reserve. The current HRA reserve balance of £47m will reduce over the coming years as costs continue to exceed the income generated from the housing stock. Planned increases in rental income over future years, allowed under current government guidance, would mean that although the reserve balance will drop below £19m it will not be fully exhausted and will start to replenish after 2033/34.



- 4.10.2 The table below provides a summary of its operating (surplus)/deficit for the three years including the proposed budget for 2021/22:

	2019/20 Actual £'000	2020/21 Forecast £'000	2021/22 Budget £'000
Expenditure	58,973	61,378	59,410
Income	(58,974)	(54,849)	(56,641)
(Surplus) / deficit	(1)	6,545	2,769
Capital expenditure	23,027	23,527	44,270

- 4.10.3 Derby Homes manages and maintains the HRA housing stock on behalf of the Council. The proposed management and maintenance fees to be paid to Derby Homes are set out below.

- 4.10.4 Management Fee - The report proposes an increase to the core management fee of £18,000.

Management fee	Core fee £'000	Service Charge £'000	Total £'000
20/21 approved management fee	10,560	487	11,047
Pay award of 2.75% not 2.00%	50	0	50
Reduced pension contribution	(290)	0	(290)
Lower service charges	0	(59)	(59)
Revised 20/21 management fee	10,320	428	10,748
Inflation	85	5	90
Stock loss / adjustment	(67)	0	(67)
21/22 management fee	10,338	433	10,771

- 4.10.5 Maintenance Fee - The report proposes uplift to the core maintenance fee of £6,000.

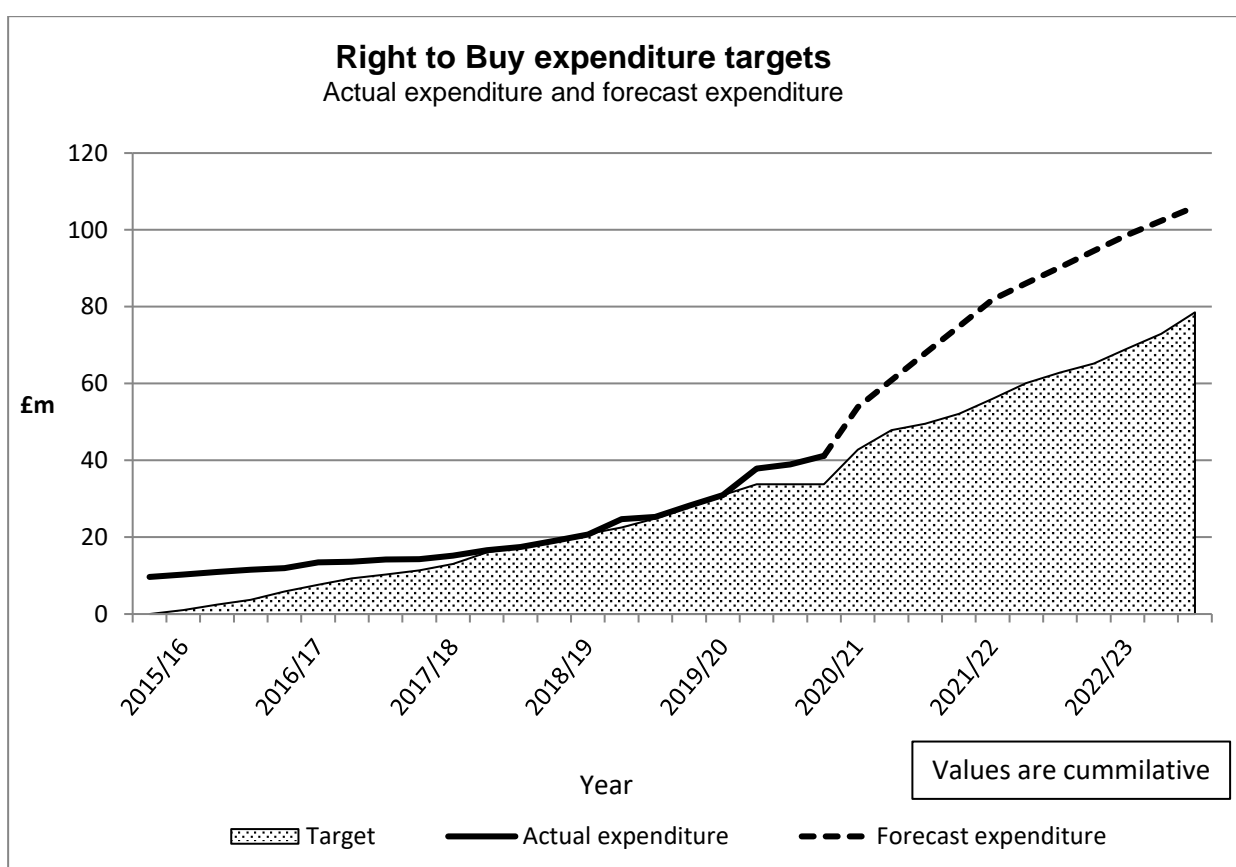
Maintenance fee	Core fee £'000	Service Charge £'000	Total £'000
20/21 approved maintenance fee	16,938	1,331	18,269
Pay award of 2.75% not 2.00%	48	0	48
Reduced pension contribution	(268)	0	(268)
Revised 20/21 maintenance fee	16,718	1,331	18,049
Inflation	115	36	151
Stock loss / adjustment	(109)	0	(109)
21/22 maintenance fee	16,724	1,367	18,091

4.11 Right to Buy 1 for 1 Receipts

There remains a risk of having to repay some RtB 1 for 1 receipts if acquisitions and new build spending is insufficient to meet government targets. There is a three year period in which to use the receipts and the Council still faces a challenge if it is to meet these deadlines. For 2021/22 alone, it is estimated that a further £3.7m of receipts will have to be used next year, which requires approximately £12.3m to be spent on acquisitions or new build homes. This is taken into account when planning the capital programme. To mitigate risk of repayment to government, the current strategy is to purchase individual properties on the open market should planned development not be achieved.

- 4.11.1 However, as the rate of new build and acquisition continues to increase beyond 2021/22, so will the use of the Council's RtB receipts in order to part fund these schemes as described earlier in the report. This will in turn reduce the risk of the Council having to return 'unspent' receipts to MHCLG and at that point, the Council is likely to pursue external grant funding, typically from Homes England, to in part, fund these new developments or acquisitions.

- 4.11.2 The Council has the ability to use recycled RtB receipts not only for direct investment in replacement council housing but also to give grants of up to 30% of cost to providers of social housing, including Registered Providers. This is with the exception of those in which an Authority holds an interest in, which currently prevents those RtB receipts being paid to Derby Homes. Such grants could be given to enhance the number of affordable homes in Derby beyond the 500 planned to be delivered by HRA. The capital programme doesn't include any planned provision of grants, but should applications be received they can be considered in accordance with an existing delegated Cabinet approval.
- 4.11.3 This process remains a useful option for the Council to enhance its overall delivery programme in partnership with other local providers of social housing. It is prudent to develop external funding strategies in order to ensure that the city's overall delivery capacity is sufficient to absorb the required level of RtB receipts to prevent repayment to MHCLG.



4.12 Rent Policy

Since April 2020, the Council has been regulated by the Regulator of Social Housing (RSH) in terms of rents. The Council has consistently set rents in line with government guidance and policy and this will continue.

- 4.12.1 The Council is responsible for setting the rents and service charges to be applied to its dwellings for the 2021/22 financial year and the following increases are proposed for approval by Council:

	% Increase	
Council Housing Rents	1.5%	In line with Government guidelines
Other Housing Rents	1.1%	RPI, as allowed under relevant legislation. This includes Milestone House, Imari Park, Shelton Lock Park Homes site, garages and other Council set rents
Service Charges	1.1%	RPI to reflect rises in costs, except the following: Grounds Maintenance service charges – 10% increase to reflect specific cost pressures associated with this service, including the National Living Wage. Cleaning service charges – 10% increase to reflect specific cost pressures associated with this service, including the National Living Wage. We have identified a few sites where a lower 1.1% increase is needed and these are specified in appendix 2.
Furniture Packs	No change	Offering better value for money

4.13 Future Considerations

Rent

With effect from April 2020, there is now greater flexibility in terms of setting rents on re-lettings of social housing (which still represents 97.5% of the Council's stock). This flexibility amounts to an additional 5% on general needs and 10% on supported housing rents from the 'standard' formula rent. Whilst it is not proposed to adopt this strategy as a part of this budget setting round, further work will take place to assess the implications of the rise with a view to it being considered at some point in the future.

Further expansion of the new build and acquisition programme

As previously mentioned in this report, the lifting of the debt cap in 2018/19 has provided an opportunity to significantly increase the rate of the new builds and acquisitions programme in order to maintain the number of homes in the HRA housing stock. Work is currently taking place to identify sites and properties to support this aim.

Universal Credit - The roll out of Universal Credit remains currently manageable, as at present it affects new tenants and tenants with a change in circumstances only. In areas in which Universal Credit has been fully implemented rent arrears have increased significantly, thereby reducing the income for the HRA. The impact of Universal Credit on debt levels and therefore HRA income will be closely monitored.

Covid19 – As the situation continues to evolve, the full impact of Covid19 on the HRA is not currently understood. However, amongst other things, it is expected that rent arrears and bad debt levels may increase. MHCLG has confirmed they do not intend to make additional funding available to address cost or income pressures within the HRA. Assumptions on managing these from within the HRA are built into the 30 year business plan.

Other Options

- 5.1 None, The Council is required to set a 30 year HRA business plan. The proposed plan has been the subject of rigorous scrutiny and options appraisal, and is recommended as the most sustainable way forward.

Financial and value for money issues

- 6.1 The financial and value for money implications are outlined within the report.

Legal Implication

- 7.1 None arising directly from the report.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu	14/12/2020
Finance	Amanda Fletcher	15/12/2020
Service Director(s)	Alison Parkin	15/12/2020
Report sponsor	Simon Riley	15/12/2020
Other(s)		

For more information contact:	Mazer Hussain
Background papers:	
List of appendices:	
Appendix 1 –	Capital programme 2021/22 – 2023/24
Appendix 2 –	Sites where there will be a 1.1% increase for cleaning service charges

Appendix 1 - The proposed capital programme for 2021/22 to 2023/24 is set out below.

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Major works (delivered and managed by Derby Homes)			
Kitchens and Bathrooms	3,000	3,725	3,925
Unallocated Maintenance, including carbon reduction	2,300	2,400	2,819
Disability Adaptions	700	700	700
Estates Pride – General	250	250	250
PVCU Windows & Doors	1,500	1,500	1,500
Capital Salaries Mods Liaison	700	700	700
One-off Mods/Major Refurbishments	700	1,700	1,700
Re-Roofing	1,500	1,500	1,300
Communal Door Entry Systems	50	50	50
New & Replacement Central Heating	2000	2,000	2,000
Rewiring/Electrical Upgrades	500	500	500
Solid Wall Installation	350	0	0
Fire Safety Work	250	250	250
Emergency call system replacement	250	0	0
Green homes grant programme	791	855	0
Rivermead refurbishments	1,292	683	25
HRA Shops	150	250	250
Total Maintenance	16,283	17,063	15,969
New Build and acquisitions			
The Grange	2,500	2,800	0
Chesapeake	600	550	0
Oakland Avenue	500	0	0
Crompton	500	0	0
Cummings Street car park	300	300	0
Whitaker Street	200	200	0
The Knoll	2,500	1,000	0
New Build and Acquisitions	13,845	4,449	10,249
Barlow Street	750	1,000	0
Berwick Avenue	140	0	0
Elmtree	0	400	0
Riverview site	2,500	2,500	1,400
Parliament Street	3,652	3,654	2,896
Total New Homes	27,987	16,853	14,545
Total HRA	44,270	33,916	30,514

Appendix 2 – Sites where a lower 1.1% increase is needed for cleaning service charges.

Address	Numbers
Arthur Hind Close	8-11, 25-28, 29-34,35-40, 41-46
Ashworth Avenue	29-35
Balmoral House	1-6
Barley Croft	2-12, 13-19, 14-24, 21-27
Belfast Walk	10-16
Berwick Avenue	81-91
Buckingham House	1-9
Burton Road	46-56, 58-62, 64-70
Darwin Avenue	5-21
Eldon House	1-6, 7-15
Exeter House	1-45
Hartshorne Road	75-85
Highgate Green	10-16
Hillview House	1-15
Holyrood House	1-9
King's Mead Close	26-36
King's Mead House	13-18
King's Mead Walk	10-16, 34-40
Lambe Court	1-4, 7-10
Leaper Street	37-47, 63-69
Mansfield Road	97-107
Mansfield Street	2-12, 14-24
Merrill Way	5-19, 21-35, 63-79
Morningside Close	2-12, 14-24, 67-77
Old Chester Road	104-110, 112-118
Parker Street	41-47, 49-55, 57-63, 65-71
Pennine House	1-6
Queensferry Gardens	20-26, 28-34
Southcroft	2-8, 27-37, 46-52
St Anne's Close	1-11, 53-77, 78-102
Sterndale House	1-6, 7-12
Swinscoe House	1-9
Waterford Drive	64-80, 226-242, 244-260
Watson Street	1-7
Willow House	1-6, 7-12
Windmill House	1-9