COUNCIL CABINET
14 February 2024

ITEM 14

Report sponsor: Councillor Shiraz Khan, Cabinet Member for Housing, Property and Regulatory Services
Alison Parkin, Director of Financial Services
Report author: Mazer Hussain, HRA Business Manager

Housing Revenue Account Business Plan 2024 to 2053

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 Increasing pressures resulting from inflation levels, the cost-of-living crisis and the government's decision to cap social rents at 7% for 2023/24 to avoid further pressures to social tenants combined with historic decisions to reduce rents as part of the Welfare Reform and Work Act 2016, have meant that the HRA has had to make some incisive decisions in terms of creating a sustainable strategy for the 30 year business plan to meet the management and maintenance requirements of the Council's housing stock, together with the investment ambitions for additional homes, some reductions and changes as per paragraph 4.11.4 have had to be made.

Recommendation(s)

2.1 To approve the 2024/25 update of the rolling 30 year HRA Business Plan, as set out in the body of this report.

2.2 To approve funding for the new homes programme as part of the Council's capital programme as set out in paragraph 4.8 and appendix 1.

2.3 To approve the 2024/25 management and maintenance fee of £30.869m paid to Derby Homes as set out in paragraph 4.11.4 and 4.11.5.

2.4 To approve changes to rents and service charges as set out in paragraph 4.13

2.5 To approve the continuation of the capital programme for the years 2024/25 to 2026/27 in appendix 1 and to approve Derby Homes continuing to directly manage the schemes attributed to them.

Reason(s)

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 2024/25 to 2053/54 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. The housing stock 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 Decent Homes 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 12,364 homes as at 1 April 2023, of which roughly 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 of the Housing Strategy is to increase stock of that size.

4.5 Despite the financial challenges facing the HRA, it continues to demonstrate sustainability over the 30 year business plan with an opening reserve balance of £42.4m (including the Major Repairs Reserve) as at 1st April 2023. The lifting of the debt cap in 2018/19 allowed greater flexibility in budget setting and had enabled the plan to support investment and service delivery aspirations over and above the core management, maintenance, and investment requirements and be more ambitious in terms of funding more new homes in future.

4.6 Section 197 of the Housing and Regeneration Act 2008 gives the Secretary of State the power to direct the Regulator of Social Housing to set a standard on rent. Once issued, a Direction is binding on the Regulator. On 31st August 2022 the Government published a consultation on a draft Direction to the Regulator of Social Housing about social housing rents in England. The consultation sought views on a temporary change to social housing rent policy that would take effect from 1 April 2023.

Existing rent policy at the time allowed social housing rents to increase by up to the CPI rate plus 1%. However, with the high level of inflation and cost of living pressures facing households, the Government consulted on setting a ceiling on social housing rent increases in 2023-24 in order to protect households from further financial challenges. The outcome of the consultation was a 7% ceiling on rent increases for 2023-24. The rent cap has meant that at 7% the HRA is expecting to lose circa £100m in rental income over the 30 Year business plan period (with an estimated rent loss in 2023/24 of circa £2.3m when compared to the previous rent policy). This proposal alongside the Welfare Reform and Work Act 2016 and amendment regulations that required registered providers of social housing in England to reduce social housing rents by 1% a year for 4 years has had detrimental implications for HRA business planning. In real terms, the 1% reduction in rents of 4 years meant a circa 13% reduction in rents.

4.7 The HRA continues to face the challenge of Right to Buy (RtB) stock losses. Sales have been fairly consistent in recent years, with 186 sold in 2022/23 ,175 in 2021/22, 103 sold in 2020/21 (as a result of the impact of the pandemic, sales were lower than normal during the first half of the year), 169 sold in 2019/20, 173 in 2018/19, and 185 in 2017/18. RtB sales reduce the rental income the Council receives and therefore impacts on future years' budgets as well as extending social housing waiting lists. Housing stock is partially replenished through the new build and acquisitions capital programme.

4.8 **Capital Programme**

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

4.8.1 With the removal of the debt cap, the HRA was able to be more ambitious in terms of development and acquisition of new homes. The government has also changed its approach and has limited the number of future acquisitions to encourage increase in the amount of new builds. In support of that change, rules have been amended to encourage Councils to adopt the same approach; particularly giving 5 years rather than 3 years to spend the money raised from RtB sales. Combined with the increased price of acquisitions over the last year, this has meant that a shift has taken place in our plans to re-emphasise building new homes. Under the revised RtB regulations the Council was £15m ahead of target at the end of 2022/23.

A direct result of this was the ability of the HRA to plan to deliver a programme to build or acquire an average of 106 homes a year within the HRA over the 30 years.

4.8.2 Due to the more recent rent limitations returning a significant loss of income to the HRA combined with significant increases in construction and borrowing cost inflations, it has been unavoidable to reprioritise the available resources between the short-term and long-term aspirations of the capital programme. To facilitate a balance budget the capital programme has been purposefully reviewed and as a result the average new build and acquisitions programme is now an average of 86 homes per year for the duration of the business plan. The plan remains unchanged and challenging for the first 5 years followed by a reduction in years 6 through to year 30. We continue to incur a net loss of 96 homes a year, 2,858 (23%) over the business plan period.

4.8.3 The purchase of empty properties will still be actively explored where there is a viable business case, and the homes are suitable for inclusion in HRA housing stock.

4.8.4 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.
- Investment in solar panels where practicable to embed them into the existing plans for re-roofing (for instance where the roof aligns appropriately with the sun and is not shaded by trees).
- Delivery of improvements to energy efficiency of flats partly funded by grants and
- Finalisation of plans to deliver improvements to Rivermead House.

It is important to note that in order to maximise return on investment, officers are examining component life cycles as well as reverting back to Decent Homes Standard from 'The Derby Standard' to meet the financial challenges being presented to the HRA.

4.8.5 The summarised position for the capital programme for 2023/24 to 2026/27 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.

	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000
Major works	15,495	18,427	15,484	15,050
New Homes/Acquisitions	14,246	24,991	25,301	25,818
Total	29,741	43,418	40,785	40,868
Funding				
RTB Receipts	5,698	9,997	10,120	10,327
Borrowing / Major Repairs Reserve	23,067	24,991	29,715	30,541
Grant/ External Contribution	975	975	500	0
Total	29,741	43,418	44,268	40,868
No of New Homes completed	55	111	166	151

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.

4.9 The Government has committed to tackling climate change and has set a target of reducing domestic emissions to net zero by 2050, however, the Council has committed itself within the Corporate Plan to achieve this by 2035. The Government has indicated the possible revision of the Decent Homes Standard and of this including a requirement to achieve EPC C by 2030. The Regulator of Social Housing (RSH) therefore expects social landlords to be working to understand the potential costs of making carbon reduction improvements to its assets. We have aligned to achieve the target, we currently have circa 300 properties that require investment to become EPC C.

The current HRA business plan includes c£1.4m per annum (£43m over the HRABP period) towards achieving net zero carbon position (c£1.75m in 23/24 HRABP). However, current estimates suggest that this is significantly below the required level of investment (potentially c£380m) and to achieve the set target the HRA will need significant government support. It is anticipated that external Government Support will be available for Social Housing to support these changes. This is reinforced by the fact it is envisaged that the emerging Combined Authority for the D2N2 area will have retrofit of existing housing stock as a key priority to reduce carbon emissions. If received, this will assist in speeding up the programme.

4.10 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. These will be incorporated and prioritised into the programme when sites are identified and secured.

4.11 **Revenue**

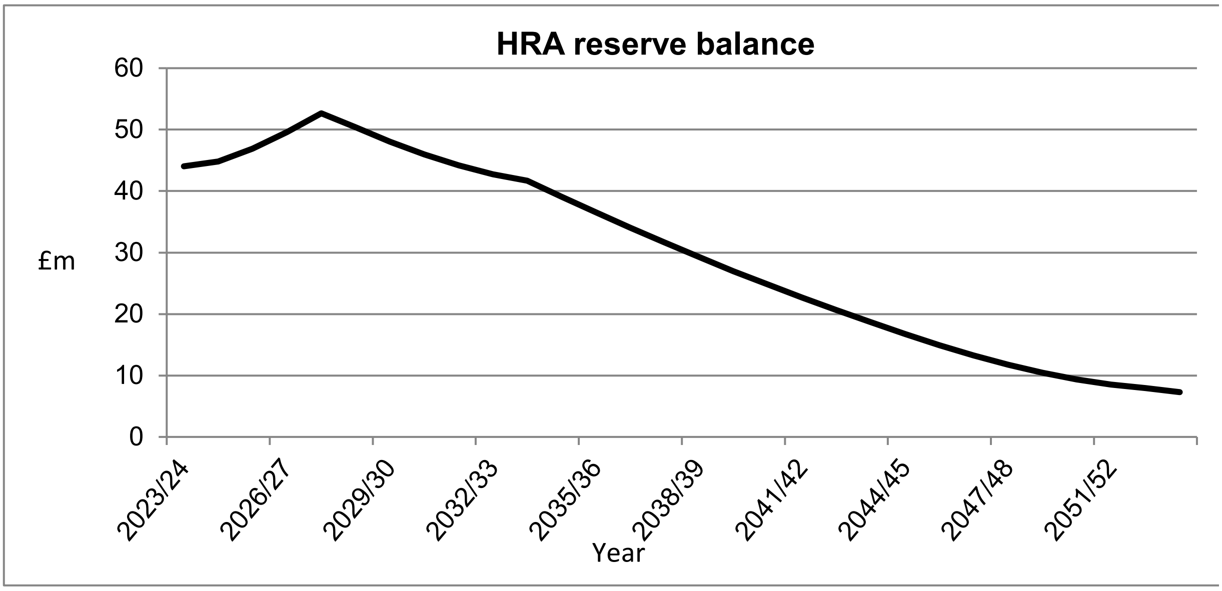
The HRA Business Plan is under greater strain now than it was five years ago as it is no longer operating at revenue surplus going forward in the longer term. The budgeted position for 2024/25 is a surplus of £0.650m and will rely on the use of the HRA's reserves beyond 2028/29. The main reasons for future deficits are:

- the loss of income due to RtB stock losses
- the loss of income due to the 4 year period of rent reductions
- 7% cap on rent increases for 2023/24 whilst entering a period of investment into the housing stock
- Significant borrowing costs
- Significant cost challenges due to high inflation

4.11.1 The table below provides a summary of its operating (surplus)/deficit for the three years including the proposed budget for 2024/25:

	2022/23 Actual £'000	**2023/24 Forecast £'000**	**2024/25 Budget £'000**
Expenditure	60,981	66,436	70,253
Income	(62,716)	(66,232)	(71,036)
(Surplus) / Deficit	**(1,735)**	**204**	**(650)**
Other (Increase)/Use of Reserves	5,343	(1,900)	0
In Year (Increase)/Reduction of HRA Reserves	**3,608**	(1,696)	(650)
Capital expenditure	22,947	29,741	43,418

4.11.2 The 30 year business plan allows us to plan over the longer term and assess the impact of the deficits on the reserve. The HRA forecast reserve balance (including the Major Repairs Reserve) as at 1st April 2023 is £42.4m and will reduce over the coming years as operational costs and investment into current and future housing stock continues to exceed the income generated. Planned increases in rental income over future years, allowed under current government guidance, would mean that although the reserve balance will drop to £7.3m. The business plan requires a minimum reserve balance to be £6.9m in line with good practice.



The Reserve profile is based on the following assumptions:

- Future rent increase:
  - 2024/25 – 7.7% (rent standard)
  - 2025/26 – 3.8% (CPI+1% - assumed rent standard)
  - 2026/27 – 3% (CPI+1% - assumed rent standard)
  - 2027/28 – 3% (CPI+1% - assumed rent standard)
  - 2028/29 to 2053/54 – 2.5% (CPI+0.5% - assumed rent standard)

- Fund borrowing to enable annual replacement on average of 86 units of lost social housing
- Savings of £1.260m as follows:
  - 25/26 - £0.365m
  - 26/27 - £0.365m
  - 27/28 - £0.530m

- Recommended minimum reserve balance of £6.852m

4.11.3 Derby Homes manages and maintains the HRA housing stock on behalf of the Council. The Council has awarded Derby Homes a new contract for 2022-32. The proposed management and maintenance fees to be paid to Derby Homes are set out below.

4.11.4 Core Management Fee – The report proposes an increase to the core management fee of £493,000.

Management Fee	Core fee £'000	Service Charges £'000	Total £'000
23/24 management fee	**11,316**	**497**	**11,813**
Align Service Charge to actual		59	59
Pay award adjustment to 6%	127		127
Employer pension adjustment	(79)		(79)
Revised 23/24 management fee	**11,364**	**556**	**11,920**
Inflation	562	37	599
Stock loss / adjustment	(117)		(117)
24/25 management fee	**11,809**	**593**	**12,402**

Further work is being undertaken to find a longer term solution for future year savings that will avoid further reduction of the core management fee.

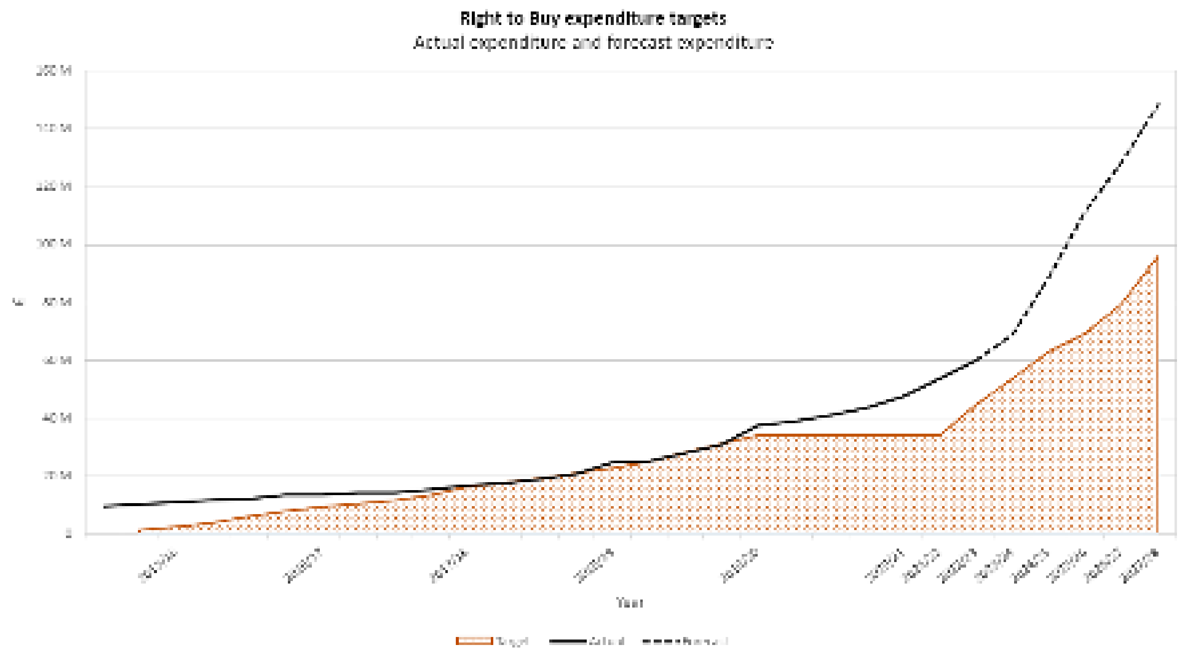
4.11.5 Core Maintenance Fee – The report proposes uplift to the core maintenance fee of £876,000.

Maintenance Fee	Core fee £'000	Service Charges £'000	Total £'000
23/24 maintenance fee	**18,184**	**2,215**	**20,399**
Align Service Charge to actual		116	116
Pay award adjustment to 6%	115		115
Employer pension adjustment	(85)		(85)
Revised 23/24 maintenance fee	18,214	2,331	20,545
Inflation	1,034	156	1,190
Stock loss / adjustment	(188)		(188)
Align Service Charge to actual		56	56
24/25 maintenance fee	**19,060**	**2,543**	**21,602**

4.11.6 Should local government pay awards be different to the current assumptions (4.2%), further adjustments will be made to the fees.

4.12 **Right to Buy – 1 for 1 Receipts**

The government has recently changed the rules relating to the use of Right to Buy 'one for one' receipts on replacement homes for 2021/22. The main change is positive, in that the Council now has 5 years to spend its receipts rather than 3, and therefore the likelihood of having to repay receipts has significantly reduced. To encourage increase in the number of new builds there are restrictions on the number of acquisitions in future years.



4.12.1 Now the Council has a longer period to utilise the RtB funds, it is able to pursue external grant funding with more vigour, typically from Homes England to in part, fund future new developments.

4.12.2 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 40% 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 those planned to be delivered by the 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.

4.13 **Rent Policy**

Since April 2020, the Council has been regulated by the Regulator of Social Housing (RSH). From April 2020, the RSH's Rent Standard made provision for a maximum annual increase in social housing rents of CPI plus 1% with effect from April 2020 for a period of five years. As a result of the cost of living crisis a one year cap (set by Government) was applied at 7% for 2023/24 rent increase.

The Welfare Reform and Work Act 2016 included a statutory obligation for registered providers of social housing to reduce their rents by 1% per year, irrespective of inflation, from April 2016 to March 2020. As a result, over the four years the rent reduction amounted to 13% in real terms (c£290m). Any rent increases will not mitigate against the reductions during the reduction period but has set a lower baseline than it would have been.

Including the proposed rent increase for 2024/25, the HRA average rent for a property with more than 2 bedrooms is 56% less than the market rent. The Council has consistently set rents in line with government guidance and policy and this will continue.

	2015/16	2022/23	2023/24	2024/25	Change 2015/16 to 2024/25
Council rent - £ per week (overall average – slightly above 2 bedrooms)	78	84	90	97	24%
Market rent (2 bed)	110	143	159	173	57%
% Council rent v Market rent	71%	59%	57%	56%	(15%)
CPI Inflation index (Sept previous year)	100.3			132.0	32%

4.13.1 The Council is responsible for setting the rents and service charges to be applied to its dwellings for the 2024/25 financial year and the following increases are proposed for approval by Council:

	% Increase	
Council Housing Rents	7.7%	In line with RSH – Rent Standard
Other Housing and Non-Dwelling Rents	6.7%	CPI increase is permitted under relevant legislation for Imari Park, Shelton Lock Park Homes site and Milestone House As per lease/rental agreements for garages and other Council set rents.
Service Charges (SC)	6.7%	All Service Charges will increase by CPI to reflect rises in costs, except the following: Grounds Maintenance service charge – 10% increase to reflect specific cost pressures associated with this service, including the National Living Wage. £1 per week cap applies. Communal Cleaning service charge – where costs are more than the income generated, a 10% increase, with the increase being limited to a maximum of £1 per week. Other sites, a 6.7% increase applies.
Furniture Packs	No change	Offering better value for money

4.14 **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. It was envisaged that further work on this strategy would be considered during 2023/24, however due to the financial pressures the country has been exposed to, it is not believed that this was the appropriate time to undertake this review. 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 an acquisition programme
As previously mentioned in this report, the lifting of the debt cap in 2018/19 provided an opportunity to significantly increase the rate of the new homes programme. The Council has identified a number of its own sites which it has appropriated to the HRA for future development and this will help to develop more options for further new homes.

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 although Derby is now included in the phasing of welfare support over to Universal Credit. 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 continue to be closely monitored. Rent arrears have increased but not by as much as might have been expected over the last year.

Cost of Living Crisis –There will continue to be impact from the cost of living crisis on the HRA as the economic situation impacts on tenants and other Derby residents. We expect higher demand for housing increasing waiting lists. The HRA has not received direct support from the Government but by supporting citizens through this difficult period there is a financial impact on the HRA. Amongst other things, rent arrears and bad debt levels may increase. However, assumptions on managing these from within the HRA are built into the 30 year business plan.

Public/stakeholder engagement

5.1 Stakeholders were consulted using the Derby Homes Operational Board, this board consists of 6 HRA tenant members and a HRA leaseholder as part of a team of ten, including independent, Councillor and community representative.

In addition, stakeholders were consulted using Customer Voices a tenant representative group. The group was presented with the current climate within the social housing environment.

The group was presented with the current climate within the social housing environment. The presentation and discussions included:

- The rent consultation 2023/24 and the impact of the DLUHC rent cap.
- How our rent levels compare with the market
- The quality of our housing and our service
- How we perform as a landlord
- Why we are consulting
- Operational Boards view on the level of the rent cap

5.2 The stakeholders representing tenants specified 6% to 8% as an acceptable rent increase (subject to CPI+1% being within that range).

Other comments included:

- Rents increase is fair and reasonable.
- Council rents are value for money.
- You know it will be sorted [in reference to repairs]
- Housing need is in high demand, we need to increase numbers and prevent loss through Right to Buy.

Other options

6.1 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

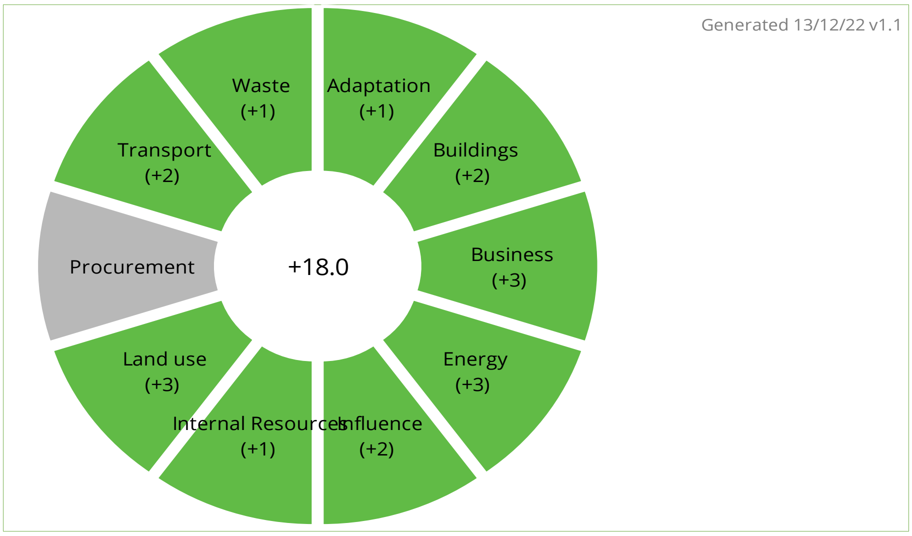
7.1 The financial and value for money implications are outlined within the report.

Legal implications

8.1 None arising directly from the report.

Climate implications

9.1 An initial climate impact assessment has been undertaken and the chart below details positive climate benefits in most areas.



9.2 As a minimum all new developments will be built to current thermal efficiency standards. However, as there are proposed changes to Building Regulations setting out the Future Homes Standard that will require an increase in the energy efficiency for new homes (75%-80% CO_2 reduction), the Council and Derby Homes will review the specification and design approach for each new development.

Consideration will be given to energy efficiency technologies such as air source heat pumps and solar photovoltaic panels whilst at the same time also reviewing the most appropriate approach in relation to running costs for tenants and educating tenants in best use of available technology to promote energy efficiency.

Newbuild projects in the capital programme will work towards achieving bio diversity net gain requirements to ensure that the environment is left in a better state post development.

Socio-Economic implications

10.1 The HRA is a statutory ringfenced account that provides social housing to tenants. HRA tenants are some of the most vulnerable individuals and families that require support from across the Council, approximately 60% of the tenants are in receipt of Housing Benefit as an indicator of low-income residents. The HRA provides good quality social housing at 56% of market rents and attempts to facilitate social mobility as housing is a significant factor in individuals economic activity and social behaviour.

10.2 The HRA loses on average 182 social homes per year through the Right to Buy legislation. The HRA plans to reinvestment in social housing by attempting to replace approximately 86 homes, unfortunately this leaves a net loss of 96 homes per year. This equates to 2,880 homes (23% reduction) of available housing over the business plan period.

Other significant implications

11.1 None

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu	25/01/2024
Finance	Amanda Fletcher	26/01/2024
Service Director(s)	Samantha Dennis	31/01/2024
Report sponsor	Alison Parkin	31/01/2024
Other(s)	Ian Fullagar	26/01/2024

Background papers:	
List of appendices:	
Appendix 1	Capital Programme 2023/24 – 2026/27

Appendix1 – The proposed capital programme for 2024/25 to 2026/27

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Major works(delivered and managed by Derby Homes)			
Estates Pride - General	500	445	500
PVCU Windows & Doors	1,500	1,500	1,500
Capital Salaries Mods Liaison	700	700	900
Kitchens and Bathrooms	4,523	3,949	4,000
One-off Mods/Major Refurbishments	1,057	750	1,250
Re-Roofing	1,500	2,400	2,400
Disability Adaptions	700	700	700
Communal Door Entry Systems	50	50	50
New & Replacement Central Heating	2,400	2,400	2,500
Rewiring/Electrical Upgrades	500	500	500
Solid Wall Installation	1,593	0	0
Emergency call system replacement	434	200	100
HRA Fire Safety	500	500	500
Rivermead Refurbishment	2,000	1,000	0
HRA Shops	250	250	100
Green Homes Grant Programme	100	100	0
Water Service - HRA	120	40	50
Total Maintenance	**18,427**	**15,484**	**15,050**
New Build and acquisitions			
New Build and Acquisitions	2,600	2,600	2,600
The Knoll NB	2,162	1,923	194
Riverview Site (Previously Brit Court)	500	1,500	1,655
Barlow Street	1,606	400	0
Oakland Avenue - HRA	538	187	0
Crompton Street	600	178	0
HRA - The Grange	2,920	3,365	0
Whitaker Street	300	0	0
Elm Tree/Oak Tree Avenue	511	80	0
Former Council House Acquisitions	1,200	1,200	1,200
Falcon - HRA	663	0	0
Brentford Drive - HRA	974	200	0
Warwick House - HRA	3,000	2,230	0
Schemes Pre-Development	2,977	10,505	20,000
Drewry Lane	1,755	822	169
Monyash Close	431	0	0
Cricklewood Road	860	0	0
Greenwood Avenue	356	106	0
Holbrook Park Bellway	533	2	0
The Meadows (Snelsmoor Grange)	504	2	0
Total New Homes	**24,991**	**25,301**	**25,818**
Total HRA	**43,418**	**40,785**	**40,868**