



Report sponsor: Simon Riley, Strategic Director of Resources
Report author: Mazer Hussain, HRA Business Manager

Housing Revenue Account Business Plan 2022 to 2052

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 financially. 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 2022/23 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 4.7.4 and appendix 1.
- 2.3 To approve the 2022/23 management and maintenance fee 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 2022/23 to 2024/2025 in appendix 1 and to approve Derby Homes continuing to directly manage 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 2021/22 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. 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 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 12,659 homes as at 1 April 2021, 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 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 £46m (excluding the Major Repairs Reserve) as at 1st April 2021. 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 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 financial position of the HRA and Business Plan is positive for the Council tenants of Derby, the HRA continues to face 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 was a fall to 103 as a result of the impact of the pandemic, which resulted in lower than normal sales during the first half of the year. RtB sales reduce the rental income the Council receives and therefore impacts on future years' budgets. Housing stock can 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 deliver a programme to build or acquire around 100 homes a year within the HRA. This compares to only being able to deliver around 50 a year before that policy was changed. The government has signalled a change in approach to limit the amount of acquisitions in future and a desire to increase the amount of new homes being built. 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 regulations the Council was £14m ahead of target at the end of 2020/21.
- 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.
 - 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.
- 4.7.4 The summarised position for the capital programme for 2021/22 to 2024/25 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.

	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Major works	13,024	18,342	14,550	13,949
New Homes	10,755	14,609	20,200	15,572
Total	23,779	32,951	34,750	29,521
Funding				
RTB Receipts	3,822	5,844	8,080	6,229
Borrowing / Major Repairs Reserve	19,357	27,107	26,670	25,965
Grant (RSAP)	600	0	0	0
Total	23,779	32,951	34,750	29,521
No of New Homes completed	60	45	128	142

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 The Government has committed to tackling climate change and has set a target of reducing domestic emissions to net zero by 2050. The Government has indicated the possible revision of the Decent Homes Standard and of this including a requirement to achieve EPC D by 2025 and 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.

The current HRA Business Plan includes c£2m per annum towards achieving net zero carbon position. However, current estimates suggest that this is significantly below the required level of investment and to achieve the set target the HRA will need significant government support. It is hoped that external Government Support will be available for Social Housing to support these changes. If received, this may assist in speeding up the programme.

- 4.9 During 2021/22 the Council was successful in bidding for £0.6m Ministry of Housing, Communities and Local Government (MHCLG) Rough Sleeping Accommodation Programme capital grant funding. Alongside £0.6m HRA match funding, this is enabling the purchase of 10 homes which will provide supported accommodation for those currently rough sleeping or in emergency accommodation. This builds on the success of the similar NSAP scheme in 2020/21. These homes are included in the table above.

- 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**

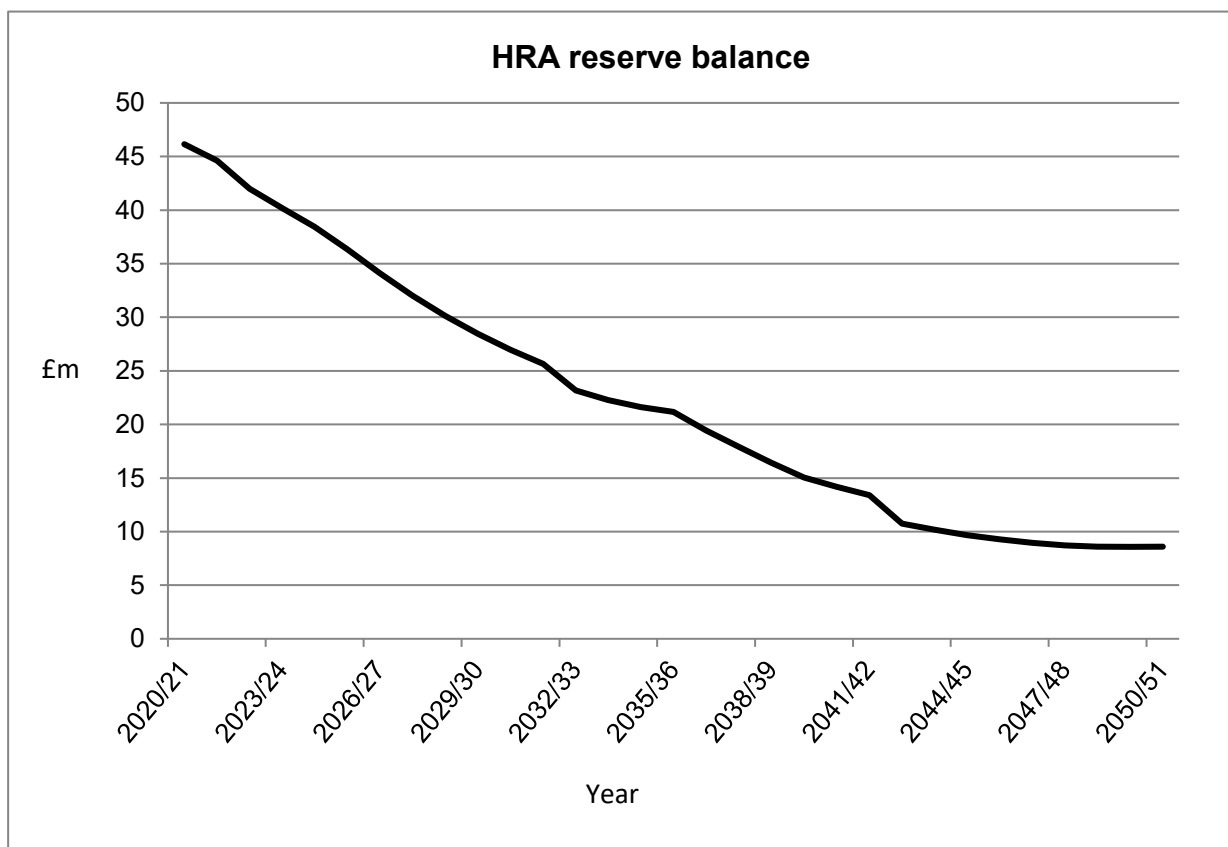
The HRA Business Plan is under much greater strain now than it was five years ago as it is no longer operating at significant revenue surpluses. The budgeted position for 2022/23 is a deficit of around £2.7m and will rely on the use of the HRA's reserves. The main reasons for the deficits are:

- 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

- 4.11.1 The table below provides a summary of its operating (surplus)/deficit for the three years including the proposed budget for 2022/23:

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Budget £'000
Expenditure	59,888	59,410	62,734
Income	(58,728)	(56,641)	(60,033)
(Surplus) / deficit	1,160	2,769	2,702
Capital expenditure	19,018	23,779	32,951

- 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 current HRA reserve balance of £46m 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 below £9m it will not be fully exhausted.



- 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 2022-2032 and as part of that arrangement, some tidying up of accounting arrangements has been agreed with the previously separate incentive fee being integrated into the main management fee. In addition, it is proposed to include service charge income relating to the home decoration scheme and garden maintenance schemes and a few other very minor charges in the service charge element rather than in the main fee as the current arrangement does not match the income with spending. There is no underlying change to the overall financial position as a result. The proposed management and maintenance fees to be paid to Derby Homes are set out below.

- 4.11.4 Management Fee - The report proposes an increase to the core management fee of £513,000.

Management fee	Core fee £'000	Service Charges £'000	Total £'000
21/22 management fee	10,338	433	10,771
Pay award expected 1.75%	50	0	50
Revised 21/22 management fee	10,388	433	10,821
Inflation	231	13	244
National Insurance increase 1.25%	86	0	86
Stock loss / adjustment	(17)	0	(17)
Integrate incentive fee	150	0	150
22/23 management fee	10,838	446	11,284

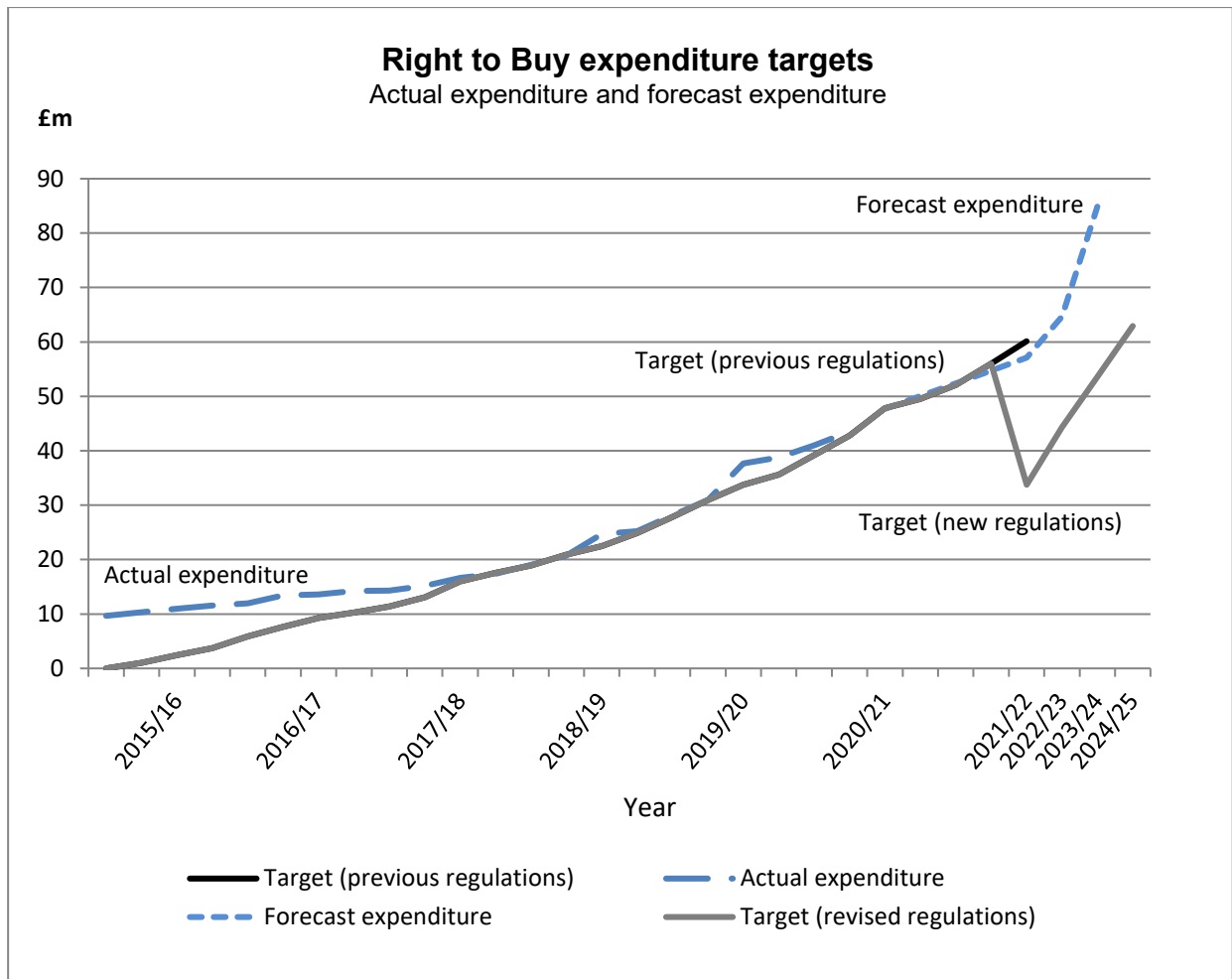
- 4.11.5 Maintenance Fee - The report proposes uplift to the core maintenance fee of £674,000.

Maintenance fee	Core fee £'000	Service Charges £'000	Total £'000
21/22 maintenance fee	16,724	1,367	18,091
Pay award expected 1.75%	48		48
Revised 21/22 maintenance fee	16,772	1,367	18,138
Inflation	434	137	571
National Insurance increase 1.25%	82	0	82
Stock loss / adjustment	(27)	0	(27)
Transfer service charge income	(500)	500	0
22/23 maintenance fee	16,761	2,003	18,765

- 4.11.6 Should actual local government pay awards be different to the current assumptions (1.75% in each year), adjustments will be made to the fees.

4.12 Right to Buy - 1 for 1 Receipts

The government's recent changes to 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. As a consequence, the acquisitions programme has been reduced from its planned 40 to 24 homes in 2022/23.



- 4.12.1 The Council is now therefore able to pursue external grant funding, 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.

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. 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 2021/22, the HRA average rent for a property with more than 2 bedrooms is 47% less than the market rent. The Council has consistently set rents in line with government guidance and policy and this will continue to.

- 4.13.1 The Council is responsible for setting the rents and service charges to be applied to its dwellings for the 2022/23 financial year and the following increases are proposed for approval by Council:

	% Increase	
Council Housing Rents	4.1%	In line with RSH – Rent Standard
Other Housing Rents	4.9%	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	4.9%	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 4.9% increase is needed and these are specified in appendix 2.
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. 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. 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.

Covid 19 –There will continue to be impact of Covid 19 on the HRA as the economic situation impacts on tenants. From experience the HRA has not received direct support from the Government but by supporting citizens through the difficult period the impact on the HRA has been reduced. As the Government tackles new strains of Covid 19 through various measures, 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.

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.

Climate Change Implications

- 8.1 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, 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.

In the coming months the Council and Derby Homes will be establishing a bio diversity specification to further support the overall sustainability of new developments.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	John Turner	14/12/21
Finance	Amanda Fletcher	16/12/21
Service Director(s)		
Report sponsor	Simon Riley	19/12/21
Other(s)		

For more information contact:	Mazer Hussain
Background papers:	
List of appendices:	
Appendix 1 –	Capital programme 2022/23 – 2024/25
Appendix 2 –	Sites where there will be a lower increase for cleaning service charges

Appendix 1 - The proposed capital programme for 2022/23 to 2024/25 is set out below.

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Major works (delivered and managed by Derby Homes)			
Kitchens and Bathrooms	4,225	3,925	3,949
Disability Adaptions	700	700	700
Estates Pride – General	350	350	350
PVCU Windows & Doors	1,500	1,500	1,500
Capital Salaries Mods Liaison	700	700	700
One-off Mods/Major Refurbishments	1,250	750	750
Re-Roofing	1,500	1,500	1,500
Integrated Solar Panels in Roofing	900	900	900
Communal Door Entry Systems	50	50	50
New & Replacement Central Heating	2,000	2,000	2,000
Rewiring/Electrical Upgrades	500	500	500
Solid Wall Installation	1,800	550	550
Fire Safety Work	250	250	250
Emergency call system replacement	212	0	0
Green homes grant programme	855	0	0
Rivermead refurbishments	1,250	525	0
HRA Shops	150	200	250
Water Services	150	150	0
Total Maintenance	18,342	14,550	13,949
New Build and acquisitions			
Acquisitions	4,440	3,400	3,400
Chesapeake	1,200	0	0
Oakland Avenue	100	525	0
Crompton	600	0	0
Cummings Street car park	550	0	0
Whitaker Street	330	0	0
The Knoll	250	663	2,438
New Build	1,230	1,110	1,170
Barlow Street	1,000	800	0
Berwick Avenue	165	0	0
Elmtree	270	270	0
Riverview site	150	1,000	1,500
The Grange	2,000	4,000	0
Aida Bliss	2,054	6,996	3,648
Falcon	270	270	0
Brentford Drive	0	666	666
Warwick House	0	500	2,750
Total New Homes	14,609	20,200	15,572
Total HRA	32,951	34,750	29,521

Appendix 2 – Sites where a lower 4.9% increase is needed for cleaning service charges.

Address	Property Number
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
City Road	37-47
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
Holbrook Road	97-109
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