Meeting of the Cabinet – 28th October 2021

Joint Report of the Deputy Chief Executive (in relation to Housing and Community Services) and the Director of Finance and Legal

Review of Housing Finance

Purpose

1. To present the latest financial forecasts for the Housing Revenue Account (HRA) budgets for 2021/22.

2. To consider:

   - rents for council homes with effect from 4th April 2022.
   - charges for sundry services with effect from April 2022.
   - a draft HRA budget for 2022/23 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
   - a revised Public Sector Housing capital programme for 2021/22 to 2026/2027.
   - the HRA's Thirty Year Business Plan.

3. Cabinet is not being asked to make final decisions in relation to paragraph 2. The proposals in this report will be considered by the Housing and Public Realm Scrutiny Committee in November, before returning to Cabinet on 10th February 2022 and where relevant Council on 21st February 2022.

Recommendations

4. That Cabinet:

   - note the latest HRA budget forecast for 2021/22 (paragraphs 6 - 10 and Appendix 1) and the revised Public Sector Housing capital programme for 2020/21 (Appendix 2);
   - approve the other proposals outlined in this report as a basis for scrutiny (paragraph 2).

Background

5. The HRA is a ring-fenced revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

HRA Budget Forecast 2021/22

6. The current budget for 2021/22 approved by Cabinet on 11th February 2021 shows a surplus on the HRA of £2.959m at 31st March 2022. There are now a number of variations expected to the original budget.

7. The original 2021/22 budget and the latest forecast for 2021/22 are shown in Appendix 1. The latest forecast shows a surplus on the HRA of £2.839m at 31st March 2022. It is not proposed to revise the budget, but to report the forecast variances against the original budget.

8. The balance brought forward from 2020/21 was £5.320m, compared to the £1.116m originally budgeted. This was reported to Cabinet on 24th June 2021, with the main reasons for the favourable variance being improved rental income collection and lower arrears; slippage on revenue Repairs and Maintenance (linked to the Covid 19 pandemic); saving on the Discretionary Housing Payments top-up budget; and staffing vacancies.

9. The latest forecast for 2021/22 includes the following key variations to the budget:

- Increase in balance brought forward from 2020/21, as noted in para 8;
- Increased revenue repairs and maintenance costs largely relating to enhanced compliance works and reorganisation of workstreams to improve service quality;
- Reduction in revenue contribution to capital expenditure, redirecting this resource to revenue repairs and maintenance as above;
- Increased management costs responding to higher demand and pressure on services, partly funded from reserves brought forward from the previous year;
- Homeloss and disturbance payments lower than budgeted in line with reprofiling of capital investment works requiring decant and rehousing;
- Lower forecast expenditure on Discretionary Housing Payments based on latest data.

10. These adjustments overall result in a small variation to the forecast surplus carried forward for the year from £2.959m to £2.839m.

The impact on HRA balances is shown below:

	Budget £m	**Outturn £m**
Balance at 31 March 2021	**4.1**	**5.3**
Budgeted use of balances	-1.1	
Forecast 2021/22 outturn		-2.5
Balance at 31 March 2022	**3.0**	**2.8**

Rent Increase

11. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance at the time relating to social housing rents: that is, a maximum increase of September CPI plus 1%. From April 2020, social housing providers returned to this policy, following the four years of rent reductions (2016/17 through to 2019/20) announced in the July 2015 budget. It is therefore proposed that the next rent year will start on 4th April 2022. September CPI will be announced on 20 October, so at the time of writing this has been estimated at 2.5%, which would allow weekly rents to be increased by 3.5% compared to 2021/22 levels. The draft proposed HRA budget for 2022/23 and the thirty-year long-term financial forecast for the HRA are both based on this level of increase, and will be updated to reflect the actual inflation rate if required.

12. The average weekly rent based on an increase of 3.5% will be £82.50 from April 2022, compared to a current average weekly rent of £79.71. This represents an average weekly increase of £2.79. Housing Benefit and Universal Credit housing element payments will both increase in line with the approved rent increase.

Service Charges

13. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture and garden maintenance. It is proposed that these service charges be increased by 2.3%, in line with the current rate of inflation (average April to August 2021). The charge was not increased in 2021/22 given the low rate of inflation at the time and the economic pressures resulting from the pandemic.

14. We also apply service charges to 348 properties in our eleven sheltered housing schemes in respect of heating and lighting. These charges vary according to the scheme and the size of the properties and may be offset

against the winter fuel payment received by tenants, plus any cold weather payments. Housing Benefit will also cover these charges where applicable. We have reviewed current charges and the electricity and gas costs incurred at each scheme, and we propose that charges be maintained with no increase for 2022/23, and where possible as a result of refurbishment and investment in more efficient heating systems, that charges be reduced accordingly.

15. The Council offers laundry tokens for sale for the use of tenants at three high rise blocks (two in Brierley Hill and one in Dudley). It is proposed that charges be maintained at the current rate of £2.60 per token.

16. It is proposed that pitch licences at Oak Lane be increased in line with the proposal for general rents, and that weekly charging for water be increased by 2.3% to £6.94 per week in line with the current rate of inflation (average April to August 2021). The charge was not increased in 2021/22 given the low rate of inflation at the time and the economic pressures resulting from the pandemic.

17. The Council currently charges an administration fee of £130 per year to its leaseholders, to cover the costs of managing the properties. It is proposed to increase this fee by £10 to £140 from 1 April 2022 in order to continue to move towards full cost recovery. The charge was not increased in 2021/22 given the low rate of inflation at the time and the economic pressures resulting from the pandemic.

18. It is proposed that the current charge of £75 (plus VAT) per leasehold information pack, introduced from 1 January 2015 to cover the costs of compiling information relating to the sale of council flats, be maintained at the current level with effect from 1 April 2022.

19. The Council currently charges private residents who are in receipt of Telecare services (provision of an alarm service, and also standalone equipment such as pill dispensing service and GPS tracking watches) £15.30 per month, and also charges Housing Association tenants varying amounts for this service. It is proposed to increase these charges to £16.00 per month from 1 April 2022. This represents an increase of 70p per month. Income generated will be used to increase investment in and development of the service, particularly in the context of the move to digital telephony over the next five years, which will have a significant impact on this service. It is also proposed to review the present arrangements whereby private residents are charged but council tenants are not. Any changes as a result of this review will be the subject of a full consultation process, will take into account the impact of potential charges on service demand and users' financial circumstances, and will include transitional arrangements to protect and support current service users.

Garage rents, garage plots and access agreements

20. It was agreed by Cabinet in February 2008 that inflationary increases for garages, garage plots and access agreements be made every three years, with the next increase to take effect from 2023/24. However, an internal review of garage sites and plots is taking place and should this result in a requirement for additional investment or maintenance, an earlier increase may be considered.

21. The internal review of garage sites and plots is progressing, with identification of sites that are popular and would benefit from improvement, or less popular, including where there are issues of anti-social behaviour. Initial classification has identified potential options to:
- Retain and invest
- Dispose for development
- Seek alternative use (for example off road parking, micro-businesses or community gardens)

Following completion of the initial desktop exercise, local consultations with tenants and residents taking place in relation to specific sites, including discussions with ward members. This will be an ongoing process, reviewing the most effective use of our garage sites and plots in order to benefit local communities.

22. It is proposed to build new garages where required, to replace older garages that are no longer fit for purpose and where there is demand. These new garages will be larger to meet planning standards and it is proposed that the weekly rent will be £12 per week. This is in line with charges made by neighbouring authorities.

Proposed HRA budget 2022/23

23. The proposed draft HRA budget for 2022/23 is also shown in Appendix 1. This budget is based on recent trends and our latest assessment of government policy on housing finance.

24. The key elements of the self-financing system that now operates in relation to local authority housing are:
- Abolition of the HRA Subsidy system and retention of all rental income.
- A one-off allocation of housing debt based on an affordability calculation.
- Transfer of investment, borrowing and inflation risks to housing authorities.
- Flexibility to borrow, following prudential guidelines.
- Continued compliance with central government HRA Ringfence guidance.
- Continued compliance with central government rent policy.

25. The proposed draft HRA budget for 2022/23 takes account of the proposed rent increase of 3.5% on the 4th April 2022 (paragraphs 11 - 12).

26. Decision Sheet DOH/04/2021 gave approval for restructuring the Housing and Community Directorate senior management team and indicated that further approvals would be required for reorganisation below this level. Further restructuring is now proposed in order to continue to develop new services and improve core services in line with feedback from stakeholders and service aspirations which has highlighted the need for:

- Increased emphasis on landlord health and safety compliance;
- Increased community and neighbourhood engagement and focus;
- Greater community safety role;
- More visible and accountable service;
- Increased links with wider regeneration plans and the green agenda;
- Service development to meet the requirements of the White Paper, the National Regulator for Social Housing and the Housing Ombudsman

Following this approval to restructure the Directorate, work has been taking place to define the detailed proposals for service redesign that will support the improvements required. Additional resource to achieve this has been built into the proposed draft 2022/23 budgets.

27. The proposed draft HRA budget for 2022/23 includes a budget for housing management of £22.6m. This covers the day-to-day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management. This reflects provision for increased capacity particularly around:

- Development of a neighbourhood service delivery model, building closer connections with our tenants and residents;
- Alignment of team structures and functions to better reflect customer and service needs;
- Response to the requirements of the Housing White Paper;
- Managing demand for social housing through the housing register focusing on a needs based approach;
- Assessment and provision of solutions to make our stock best meet customer needs through equipment and adaptations, assisted moves and input to design;
- Ensuring the effective allocation of social housing in the Borough;
- Building management and leadership capacity within housing management to allow a more cohesive and collaborative approach to service development;
- Supporting increasing numbers of tenants with multiple and complex needs;
- Improved access and simplified pathways for customers, with greater operational oversight;

- Moving to develop as a learning organisation, including independent review of complaints, learning from complaints, engaging with customers and reviewing the policy and procedure framework.

28. Since 2014/15, the HRA has topped up the Discretionary Housing Payments (DHP) allocation received from central government. This allows for discretionary additional benefit payments to meet housing needs, mainly where a tenant has had housing benefit reduced as a result of underoccupancy penalties or the benefit cap. Around 75% of awards relate to council housing tenants, although awards are also made to tenants of housing associations or tenants in the private rented sector. The proposed draft budget for 2022/23 includes a contribution of £250,000, which will be added to the grant from central government. Although this is a reduction on previous years' budget allocations, it better reflects actual demand and allows redirection of resources to support neighbourhood management proposals.

29. The proposed draft HRA budget for 2022/23 includes a budget for repairs and maintenance of £27.2m. This reflects:
    - Undertaking responsive repairs and routine void works;
    - Undertaking all required cyclical statutory responsibilities for safety and compliance works such as annual servicing of gas appliances, electrical inspections and maintenance on specialist electrical systems, fire risk assessments, asbestos surveys, warden call equipment and alarms, lift servicing, repairs and inspections, and periodic testing of water hygiene;
    - Cyclical maintenance such as painting of communal areas, social decorations for vulnerable residents.

30. The proposed draft HRA budget for 2022/23 includes a budget for interest payments of £17.4m. This covers the payments that are due on the debt taken on as part of the self-financing settlement and additional borrowing under the Local Growth Fund. This budget will increase in future years to service the additional borrowing arising from the proposed enhanced investment programme.

Public Sector Housing Capital Programme

31. In February 2021, a five-year housing public sector capital programme was agreed, which reflected enhanced investment using the HRA's new borrowing flexibility. A revised capital programme reflecting latest forecasts is shown at Appendix 2. Expenditure in 2020/21 was significantly reduced compared to the original budget, as activities were curtailed by the impact of Covid 19. This has resulted in slippage to future years. We are also seeing increased pressures on capital budgets as a result of higher material costs and reduced contractor capacity, which are impacting on tender prices.

32. When self-financing was introduced, it included a cap on new borrowing above a set maximum level. This was removed following the autumn Budget in 2018, so that the HRA is free to borrow to fund additional investment so long as it complies with the principles of Prudential Borrowing, in the same way as the General Fund. We have been considering our detailed options given this new flexibility. Expenditure funded by additional borrowing will be aligned to the principles of the Housing Asset Management Strategy 2019 - 2029, which was approved by Cabinet in October 2019. It is essential that where we are increasing our borrowing level that this results in a financial gain for the HRA, whether this is additional rental income from new build and improved lettability of existing stock, or reduced repairs, maintenance and management costs as a result of improvement and refurbishment of existing stock. The strategy will also include demolition or disposal of stock that is no longer desirable or viable (operationally or financially) to improve long term sustainability by meeting housing needs. We will, in summary, borrow to fund:

- Sustainable stock aligned to changing demographics and local housing need.
- Additional new build on currently vacant sites, which will increase rental income.
- Demolition / significant remodelling and refurbishment of existing stock, which may reduce rental income at least in the short term but will also reduce repair and maintenance costs on some of our red and amber stock, where these properties are not paying their way.
- New build to replace some of our current red and amber stock demolished / remodelled as above, which will increase rental income and would enable us to provide more popular and sustainable homes.

33. The proposed draft five-year capital programme at Appendix 2 includes an enhanced capital programme developed in line with these principles. The financial consequences to the HRA revenue budget have also been factored into our medium to long term budget planning. These include changes to rent income, reduced maintenance liabilities, revenue costs associated with capital projects (e.g. homeloss and disturbance payments), interest payments on additional borrowing and voluntary revenue provision for repayment of the principal on this additional borrowing. Grant funding will be accessed where possible to support investment. The Council continues to be qualified as a Homes England Investment Partner and is also qualified to participate in the new Affordable Homes Programme 2021 – 26.

34. At this stage, this draft programme includes overall budget allocations for a blended programme of new build, refurbishment, regeneration, estate improvements and disposals. We are currently working with Ark Consultancy, a specialist housing consultancy organisation, to develop a procedure for community engagement and consultation which will aid

prioritisation and development of specific estate regeneration projects. As these specific projects are identified and agreed, they will be reported to Cabinet as part of the regular HRA monitoring and budget setting reports.

35. Initial consultation has started, with representatives of the Housing Board, the High-Rise Living Forum and DFTRA, through a focused and independently facilitated exercise, to identify principles and priorities. This exercise considered options for the main types and levels of work being considered and tenants' and residents' views of these, as well as their views on how the Council should go about prioritising these options. Work will continue to build positive and productive relationships with tenants and residents, actively seeking their involvement and their views in ongoing asset management planning work. To progress this, a second phase of consultation and engagement is currently taking place, involving a pilot consultation on several area-based options, which will further develop strategic thinking in relation to types of interventions and scheme options for asset management planning work within the available resources identified. Our aim is to implement our Asset Management Strategy with an approach to communication and engagement that works effectively and allows tenants and residents to influence decision-making and participate in building a consensus for investment priorities.

36. The proposed capital programme continues to follow the principles approved in February 2021 and reflects the priorities of the Council Plan, the views of members and residents as expressed via the Housing Board, DFTRA and wider consultation events, and the Housing Asset Management Strategy 2019 - 2029. Strategic, planned investment therefore continues to target our key priorities as set out in the HRA Business Plan.

HRA Business Plan

37. The financial strategy for landlord housing is the subject of a continuing consultation process that includes tenants and residents.

The key elements of this financial strategy, which presents an overall Thirty-Year Business Plan and covers a rolling five year period in more detail, include:

- maintain the Decent Homes Standard;
- provide high quality affordable housing to provide safe homes that people want to live in and meet our diverse housing needs;
- manage our stock strategically to ensure future viability of affordable housing;
- improve the energy efficiency of the housing stock and address fuel poverty;
- invest in housing stock and minimise the number of void properties;

- review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
- improve the offer for supported living to meet the needs of an aging and vulnerable population;
- address the housing and community needs of our residents and estates, particularly around health and wellbeing, addressing fuel poverty and promoting independent living;
- deliver community and estate regeneration, improving quality, sustainability and safety;
- ensure value for money through our housing services – maximising resources, income and opportunities for commercialism supported by efficient procurement;
- provide opportunities through construction to create jobs, employment, apprenticeships and training opportunities, making a positive impact on the economic prospects for the borough for businesses and individuals.
- set rents having regard to government rent policy for social housing and our investment needs.
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment.

The HRA Business Plan is shown at Appendix 3.

Finance

38. Section 76 of the Local Government and Housing Act places a duty on the Council to ensure that no action will be taken that may cause a deficit to arise on the HRA at 31 March 2022. A duty is also placed on the Council to review the financial prospects of the HRA from time to time. Reviews and regular monitoring carried out confirm that the HRA will be in surplus at 31 March 2022 and therefore complies with the requirements of the Act.

Law

39. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing. The HRA is also governed by Ministry of Housing, Communities and Local Government (now Department of Levelling Up, Housing and Communities) guidance on the operation of the HRA ring-fence published in November 2020.

Risk Management

40. The Council's budget is identified as a corporate risk and currently rated as "Significant".

Equality Impact

41. The proposals take into account the Council's Policy on Equality and Diversity and Equality Impact Assessments will be completed as required where changes to service provision are proposed.

42. This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

Human Resources / Organisational Development

43. The report includes budget provision for a restructure, which will be progressed in line with existing HR / OD policies. Overall, the restructure is intended to strengthen the capacity to deliver and manage services and will not result in a reduction in posts. However, it is proposed that some existing job roles will be changed. While this will create a number of opportunities for development and progression, and any individuals affected will have the opportunity to be considered for alternative or amended roles, it cannot be guaranteed that there will be no redundancies or redeployments.

Commercial / Procurement

44. The proposals in the report relate to our statutory functions as a social housing landlord, and therefore there are no direct commercial implications.

Council Priorities

45. The proposals in the report will support our aims for Housing summarised in the Council Plan:
    - the provision of excellent services for tenants
    - offering high quality housing
    - supporting vulnerable people

Balvinder Heran

....

Balvinder Heran
Deputy Chief Executive

Iain Newman

....

Iain Newman
Director of Finance and Legal

Contact Officer: Catherine Ludwig
Telephone: 01384 815075
Email: catherine.ludwig@dudley.gov.uk

List of Background Papers - none

Appendix 1

HRA Budget and Forecast 2021/22 and Draft Budget 2022/23

	Original Budget 2021/22 £000s	**Latest Forecast 2021/22 £000s**	**Forecast Variance 2021/22 £000s**	**Proposed Draft Original Budget 2022/23 £000s**
Income				
Dwelling rents	-87,633	-87,349	284	-90,620
Non-dwelling rents	-610	-800	-190	-841
Charges for services and facilities	-200	-190	10	-204
Contributions towards expenditure	-1,391	-1,341	50	-1,341
Interest on balances	-25	-13	12	-3
Total income	**-89,859**	**-89,693**	**166**	**-93,009**
Expenditure				
Management	19,868	20,584	716	22,568
Management –homeloss and disturbance	315	0	-315	0
Responsive and cyclical repairs	23,392	27,293	3,901	27,219
Transfer to Major Repairs Reserve	25,025	24,773	-252	25,316
Interest payable	17,420	17,313	-107	17,472
Revenue contribution to capital expenditure	2,500	0	-2,500	0
Discretionary Housing Payments	550	250	-300	250
Other expenditure	1,893	1,961	68	1,993
Total expenditure	**90,963**	**92,174**	**1,211**	**94,818**
Surplus / Deficit in year	**1,104**	**2,481**	**1,377**	**1,809**
Surplus brought forward	**-4,063**	**-5,320**	**-1,257**	**-2,839**
Surplus carried forward	**-2,959**	**-2,839**	**120**	**-1,030**

Appendix 2

Proposed capital programme 2021/22 to 2026/27

Thematic Programme	2021/22 original £000s	2021/22 latest £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s
Maintaining Existing Homes	11,859	15,968	11,822	13,319	13,973	14,028	14,435
Major Works to Empty Homes	8,136	8,648	8,780	8,902	9,044	9,169	9,296
Fuel Poverty and Decarbonisation	4,309	4,927	6,296	4,023	4,038	4,954	3,070
Independent Living	16,292	7,747	13,232	3,964	4,012	3,053	3,096
Community and Estate Regeneration	2,518	3,114	3,004	2,139	2,102	2,115	2,128
Strategic Stock Management	3,768	3,778	3,898	13,906	4,868	9,831	1,931
New Council Housing	12,576	6,493	24,669	25,389	24,432	13,439	9,549
Total	**59,458**	**50,675**	**71,701**	**71,642**	**62,469**	**56,589**	**43,505**

Resources

	2021/22 original £000s	2021/22 latest £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s
Borrowing	3,600	0	22,210	29,800	23,004	19,353	4,306
Major repairs reserve	25,025	24,773	25,316	25,673	26,045	26,400	26,758
Revenue contribution to capital	2,500	0	0	0	0	0	0
Usable capital receipts	24,010	19,570	20,229	11,837	9,796	10,836	12,441
Less usable capital receipts transferred to support private sector housing capital	0	0	0	0	0	0	0
Other (grants)	4,323	6,332	3,946	4,332	3,624	0	0
Grand Total	**59,458**	**50,675**	**71,701**	**71,642**	**62,469**	**56,589**	**43,505**

Appendix 3

HRA Business Plan - Thirty Year Business Planning Strategy for Landlord Housing

Purpose

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) has set out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties. It relates specifically to the Housing Revenue Account (HRA) and the capital programme for improvement of the Council's own housing stock.

2. The MTFS(LH) should be read in conjunction with the Council's overall Medium Term Financial Strategy (MTFS). The underlying principles set out in the overall document apply equally to the MTFS(LH).

3. In the context of the introduction of Self-Financing for public sector housing, the abolition of the HRA subsidy system and the increased autonomy and flexibility for housing authorities to manage their stock, a Thirty Year Business Plan has been developed. This takes into account issues including investment need, treasury management strategy, financial projections and tenants' engagement.

Background

4. The financial strategy for landlord housing takes into account the delivery of the Decent Homes Standard and the new opportunities and challenges arising from the introduction of the self-financing system. This is the subject of an ongoing consultation process that includes tenants and residents. The key elements of our financial strategy, which will cover a rolling five year period, are to:

   - maintain the Decent Homes Standard;
   - provide high quality affordable housing to provide safe homes that people want to live in and meet our diverse housing needs;
   - manage our stock strategically to ensure future viability of affordable housing;
   - improve the energy efficiency of the housing stock and address fuel poverty;
   - invest in housing stock and minimise the number of void properties;
   - review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
   - improve the offer for supported living to meet the needs of an aging and vulnerable population;
   - address the housing and community needs of our residents and estates, particularly around health and wellbeing, addressing fuel poverty and promoting independent living;

- deliver community and estate regeneration, improving quality, sustainability and safety;
- ensure value for money through our housing services – maximising resources, income and opportunities for commercialism supported by efficient procurement;
- provide opportunities through construction to create jobs, employment, apprenticeships and training opportunities, making a positive impact on the economic prospects for the borough for businesses and individuals.
- set rents having regard to government rent policy for social housing and our investment needs.
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment.

<u>The proposed budget and the MTFS(LH)</u>

6. Ongoing resources are required to maintain the Decent Homes standard, and deal with properties where the age of the fittings mean that a replacement is required, and non-decent properties as they become void. The rolling five-year capital programme includes resources to maintain the Decent Homes Standard.

7. Regular stock validation surveys have been undertaken to externally validate and support existing stock investment information for the housing stock. The detailed output of this is now embedded within the thirty year investment cost plan, which is continually updated to reflect investment undertaken and newly arising investment need.

   The Housing Asset Management Strategy has the following key priorities:

   - Provision of quality affordable housing to provide safe, affordable homes that people want to live in – investment in our core stock and tackling empty homes efficiently;
   - Managing our stock strategically to ensure future viability of affordable housing;
   - Measuring and identifying stock quality and performance with de-investment, demolition and / or disposal of non-viable stock;
   - Provision of more affordable housing to meet our diverse housing need – developing more affordable homes and mixed tenure estates;
   - Improving the offer for supported living to meet the needs of an aging and vulnerable population;
   - Addressing the housing and community needs of our residents and estates, particularly around health and wellbeing, addressing fuel poverty and promoting independent living;
   - Delivering community and estate regeneration, improving quality, sustainability and safety;

- Ensuring value for money through our housing services – maximising resources, income and opportunities for commercialism supported by efficient procurement;
- Providing opportunities through construction to create jobs, employment, apprenticeships and training opportunities, making a positive impact on the economic prospects for the borough for businesses and individuals.

8. Our forecasts are been based on recent financial trends and our current assessment of the Government's housing finance policy and, like any forecast, should be regarded with caution (risks to the forecast are considered later). In view of our commitment to stock retention and maintenance of the Decent Homes Standard, it is proposed that we continue when necessary to give consideration to the following:

   - ongoing review of spending and resource forecasts;
   - further efficiency and other savings, including those achievable from use of partnerships;
   - review of the existing housing stock provision to consider de-investment options and re-configuration of high investment need and low demand homes;
   - addition to and replacement of the housing stock via new build programmes;
   - the level of housing debt;
   - service charges[1].

9. Whilst in some areas the volume of smaller responsive repairs has generally decreased due to recent investment, particularly around central heating, there is an emerging trend of increasing investment need to deliver major improvements to homes and to maintain decent homes, which was only ever a minimum tolerable standard, to a housing stock that is, on average, over 60 years old. Delivering planned programmes of improvements in cyclical, strategic programmes (such as the current planned boiler and double glazing programmes) is the optimal solution to delivering value for money through efficient procurement and planned works delivery

10. A proposed rolling capital programme has been developed as a continuation of the existing programme to maintain current standards and improvements following the achievement of the Decent Homes standard, and in line with the priorities of the Housing Asset Management Strategy. This includes a new build programme which will meet Right to Buy Replacement targets assuming that government rules will continue as they are currently.

11. Following the abolition of the HRA Borrowing Cap and the development of our Asset Management Strategy 2019 – 2029, resources have been allocated to future years based on an indicative blended programme of new build, refurbishment, estate improvements and disposals that will use our additional borrowing

[1] Government subsidy calculations assume charges over and above the rent for special services to flats and for supported housing – the HRA is financially disadvantaged as a result of not applying these charges.

capability, within prudential guidelines, to support enhanced investment in our stock. We are currently undertaking community engagement and consultation which will aid prioritisation of specific estate regeneration projects. As these specific projects are identified and agreed, they will be reported to Cabinet as part of the regular HRA monitoring and budget setting reports. It is essential that where we are increasing our borrowing level that this results in a financial gain for the HRA, whether this is additional rental income from new build and improved lettability of existing stock, or reduced repairs, maintenance and management costs as a result of improvement and refurbishment of existing stock. The strategy may also include demolition or disposal of stock that is no longer desirable or viable (operationally or financially) to improve long term sustainability by meeting housing needs. We will, in summary, borrow to fund:

- Sustainable stock aligned to changing demographics and local housing need.
- Additional new build on currently vacant sites, which will increase rental income.
- Demolition / significant remodelling and refurbishment of existing stock, which may reduce rental income at least in the short term but will also reduce repair and maintenance costs on some of our red and amber stock, where these properties are not paying their way.
- New build to replace some of our current red and amber stock demolished / remodelled as above, which will increase rental income and would enable us to provide more popular and sustainable homes.

<u>Risks to the financial forecast</u>

12. The main risks to the financial forecast are considered below:

Risk	Impact
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through the rent increase (or decrease) applied. If cost inflation (pay and / or prices) is lower than general inflation as used to determine rent levels, this will have a positive budgetary impact. However, if cost inflation (pay and / or prices) is higher than general inflation as used to determine rent levels, this will have a negative budgetary impact.
Income levels not achieved	<u>Rent loss from void properties</u>

	We have seen over recent years an increase in void properties, which has resulted in an increased rent loss of up to 3% of total rent available, although this is now reducing. We have seen an increase in the number of hard-to-let properties, for instance two-bedroom flats, particularly in high rise blocks, and some three-bedroom houses. We are working on improving processes to reduce the time that properties are empty. The cost for each 1% void loss is around £1m per annum. <u>Rent loss from non-payment of arrears</u> Many tenants now receive Universal Credit direct and are therefore be responsible for paying their own rent. Tenants in receipt of housing benefit still have their rent paid as a transfer from Benefits. The risk of non-collection of rent has increased as more rental income must be collected direct from tenants. Prior to the introduction of Universal Credit, around 65% of rent was transferred via Housing Benefit with around 35% paid direct by tenants. This has now reversed, with in 2020/21 only 35% transferred via Housing Benefit and 65% being collected directly from tenants. The management cost of collecting rents has also risen as more payments are made direct by tenants rather than via transfer from the Benefits system. We are working actively to mitigate the risk of loss of income, including tenant profiling, pre-tenancy training, support for tenants experiencing financial difficulties, increased automation and other efficiencies in the income recovery process, and partnership working across the council and with DWP, CAB and other agencies. These measures are proving highly effective in mitigating the risk of increased rent loss, as well as helping to sustain tenancies.

	In addition to Universal Credit, tenants may also be affected by underoccupancy charges (since April 2013) and the reduced Benefit Cap (since November 2016). We expect the final phase of the Universal Credit rollout (managed migration for existing claimants) to take place at some point but as yet we have no firm dates and no detail from DWP on how this process will be undertaken. During 2020/21, the impact of Covid 19 has adversely affected many of our tenants. We have provided a service that has focused on welfare and support rather than enforcement and have worked with many tenants to help them to sustain their tenancies, ensure that they claim benefits that they are entitled to, and allow them to set up affordable rent payment plans. We make a prudent annual provision for bad debts.
Change in rent policy	The requirement for social landlords to reduce their rents by 1% annually from April 2016 for four years had a significant impact on future budgets and required us to revise our HRA Business Plan to reflect this lost income. Compared to our forecasts for 2015/16 original budgets, this ongoing, cumulative rent reduction represented a loss of income of almost £28m by 2019/20. From April 2020, the maximum rent increase returned to the September CPI plus 1% formula and our projections take this into account, albeit with prudent assumptions around inflation levels. We have had assurance that this national formula for rent increases will be in place at least until 2025.

Changes to other Government housing policies	We always keep under review proposed changes in Government housing policy and the potential impact on the HRA. We are particularly aware that there may be increased regulation around fire safety following the Grenfell tragedy, which would lead to increased costs both from capital works and ongoing maintenance and management requirements. We are reviewing the implications of the Social Housing White Paper, which sets out wide-ranging proposals to transform and strengthen the regulatory regime for social housing, and the proposals for a restructure of the Housing service are designed to align our service priorities with the requirements of the White Paper and the demands of the National Regulator of Social Housing (NROSH).
Interest rates higher than forecast	Our debt on housing properties is around £470m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system. Risk is mitigated by borrowing at fixed rates and spreading repayment dates to minimise refinancing risk. As the HRA takes out additional borrowing we will mitigate the risk of interest rate rises in the same way.
Reduction in property values in the borough	Any reduction in property values will reduce the value of usable capital receipts.
Reduction in land sales and capital receipts	We recognise that with a new council house building programme we are likely to be disposing of fewer housing sites.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £84,600 per property, and in future years this will continue to increase by inflation annually. The maximum

	discount for houses has also been increased to 70%, and in May 2015 the requirement to have been a council tenant for 5 years before exercising right to buy was reduced to 3 years. The changes have resulted in increased sales from the last quarter of 2012/13 onwards, although sales have been fairly consistent at around 180 – 200 per year from 2013/14 onwards. However, because the value of the maximum discount has increased and there has been a reduction in the average value of the properties sold, increased sales will not necessarily result in a proportionally greater value of capital receipt income. New regulations have replaced the capital receipts pooling arrangements and require councils to build replacement homes for all extra homes sold under Right to Buy.
Suitability of stock	Some of our stock is old and not particularly suited to modern styles of living. In addition, changes to the benefit system mean that some of our properties are less attractive than they were previously (e.g. two-bed high rise flats or three-bed maisonettes which are often technically underoccupied). We are already experiencing difficulty in letting such properties, which leads to a loss in rental income and also potentially an increase in security costs and an increase in anti-social behaviour. Work is ongoing to assess the sustainability of the housing stock addressing the net present value of housing investment needs and rental income against demand, resulting in an assessment of the housing stock at an individual unit level, and leading to proposals which may include stock remodelling, disposal and or demolition according to the principles in the Asset Management Strategy.
Availability of borrowing	Following the removal of the HRA borrowing cap, we are exploring options for the prudent use of

	additional borrowing power to improve and increase our stock. An indicative programme is included for approval in the rolling five year capital programme and tenant engagement and consultation work is in progress relating to specific proposals.
Brexit	We are working in partnership with colleagues across the Council and the region to assess the potential impact of leaving the EU and ways in which adverse impacts can be mitigated. Contracts with suppliers have been negotiated with this in mind.
Regulation	From April 2020 housing authorities are subject to the National Regulator of Social Housing (NROSH) and we are working with the Regulator to ensure compliance. The Social Housing White Paper sets out proposals for a proactive consumer regulation regime, including active oversight of landlord performance, regular inspections of landlords with more than 1,000 properties, enhanced consumer standards, an emphasis on tenant voice and community engagement, and transparency and clarity of information provided.
Decarbonisation	We are reviewing the impact of decarbonisation requirements which will take effect over the next two decades, in particular the effect on heating systems in our properties.
Unforeseen costs or costs greater than estimated	Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year.

Partnerships

14. We continue to deliver on partnership working and currently have a number of such arrangements, for example:

- A strategic partnership for delivery of new council housing under a framework arrangement to 2024;
- Strategic partnerships that are being delivered in accordance with the principles of Sir John Egan's report 'Rethinking Construction'. Through innovative payment mechanisms, incentivising good performance and modern methods of collaborative working, partnerships are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock.

15. Funding partnerships have also been forged including with Homes England (formerly the HCA) to support new council housing and historically with energy service providers to increase resources for reducing carbon emissions under the Government's ECO (Energy Company Obligations).

16. Procurement consortia are also used (e.g. the LHC Framework, Procurement for Housing) and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.