CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 23 January 2019

Report title	Housing Revenue Account Business Plan 2019-2020 including Rents and Service Charges	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Peter Bilson, City Assets and Housing Councillor Louise Miles, Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Kate Martin, Service Director of Housing Claire Nye, Director of Finance	
Originating service	City Housing, Finance	
Accountable employee	Kate Martin Tel Email	Service Director of Housing 01902 554841 kate.martin@wolverhampton.gov.uk
Report to be/has been considered by	Housing Leadership Team Strategic Executive Board	12 December 2018 18 December 2018

Recommendations for decision:

The Cabinet is recommended to recommend that Council:

1. Approves the implementation of the 1% reduction in social housing rents in accordance with the Welfare Reform and Work Act and to give 28 days' notice to all secure and introductory tenants of the rent reduction from 1 April 2019.

2. Adopts the Business Plan set out at Appendix 1 to this report as the approved Housing Revenue Account Business Plan including:
    a. The revenue budget for 2019-2020 at Appendix 1B to this report
    b. The Capital Programme for 2019-2020 to 2023-2024 at Appendix 1C to this report to include the following;
        - Provision of £24.0 million for estate remodelling
        - An increase to the budget for the refurbishment of Heath Town Estate of £10.1 million

- An addition of £15.0 million to the budget for High Rise mechanical and electrical infrastructure
- Total new build programme provision of £157.3 million with £5.0 million for community housing development at Bushbury Hill, £4.0 million for phase 5 of the small sites programme and £60.0 million set aside for future development.

3. Approves the rates for garage rents and service charges set out in Appendix 2 to this report and formally notify tenants. There is one stepped increase to approve, all other charges remain the same

Recommendations for noting:

The Cabinet is asked to note:

1. The consultation responses as outlined at Appendix 3 to this report.

2. That the limited 'Additional Needs' Housing Revenue Account Borrowing Offer 2018 for Specific Borrowing was not made available for the City of Wolverhampton due to eligibility criteria. However, on 29 October 2018 the Housing Revenue Account borrowing cap was abolished in the Chancellor's Budget which now affords the City with the potential for additional borrowing to support Landlord Services and provide for future housing needs.

3. The issues discussed in the 2018 Social Housing Green Paper which sets out five principles for a new fairer deal for social housing residents focusing on the provision of safe and decent homes, resolving complaints, empowering tenants, tackling stigma and building new homes.

4. The National Building Safety Programme of the Ministry of Housing, Communities and Local Government and the Grenfell Inquiry pending its full outcomes, will impact upon future building safety planning. The Hackett Review 2018 makes recommendations for residential building safety and improvements to be considered as part of all future HRA asset management and improvement planning.

5. A review of the Housing Revenue Account Total Operating Model from 2019-2020 will consider future planning for Better Homes Investment (from 2022), the outcomes of the National Building Safety Programme, the Housing Revenue Account Asset Management Plan and future management arrangements for Housing Landlord Services.

6. A new National Regulator of Social Housing was established in 2018. Currently this regulator oversees Registered Housing Providers (Housing Associations) however, nationally a review is underway to consider an extension of this regulation to Local Authority owned housing, including stock managed by Arms-Length Management Organisations and Tenant Management Organisations.

1.0 Purpose

1.1 This report presents an updated Housing Revenue Account (HRA) Business Plan 2019-2020 for recommendation to Full Council. The additional borrowing flexibility provides real opportunities for the Council to increase the provision of new homes for rent, whilst continuing to invest in better and safer homes programmes to the existing stock and improving and redeveloping housing estates.

1.2 The report also provides, as an integral part of that Business Plan, a proposed HRA budget for 2019-2020, including proposed rents and service charges to take effect from 1 April 2019, and a proposed HRA Capital Programme for the period 2019-2020 to 2022-2023 for recommendation to Full Council.

2.0 Background

2.1 Since the implementation of Housing Revenue Account self-financing in 2012, the Council has been required to set out it's HRA Business Plan. The Business Plan is monitored quarterly and reviewed annually to ensure that assumptions remain robust and resources within the plan are sufficient to meet expenditure requirements. Appendix 4 to this report provides more detail on HRA self-financing.

2.2 Prior to 2014, the increase in rents was based upon a formula of retail price index (RPI) plus 0.5% plus £2.00. In 2014, the Government introduced a new formula for increases of consumer price index (CPI) plus 1%. In order to provide certainty for councils, the Government stated that this rent policy would exist for 10 years. The Council's HRA Business Plan was therefore predicated upon rents going up by more than inflation each year throughout the lifetime of the plan.

2.3 In the Chancellor's budget of July 2015, it was announced that all council dwelling rents would reduce by 1% each year from 1 April 2016 for the next four years to 2020. This announcement was subsequently included in the Welfare Reform and Work Act 2016. Previously, there was no statutory underpinning for local authority rent setting and the formulae in paragraph 2.2 of this report were provided as guidance. The 1% reduction is mandatory.

2.4 As part of the rent setting process for 2016-2017, the Council approved an HRA Business Plan that accommodated the 1% reduction in dwelling rents each year for the next four years and amended the projections over the 30-year lifetime of the plan.

2.5 The government has recently confirmed that it will resume the policy to increase rents by CPI plus 1% from 1 April 2020 for five years, and this is reflected in the Business Plan.

2.6 On 29 October 2018 an announcement as part of the Government's Budget confirmed that the HRA borrowing cap was abolished completely with immediate effect. The Government issued a determination that revoked the previous

determinations specifying local authority limits on indebtedness. As a result, local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

3.0 The HRA Business Plan 2019-2020

3.1 This year's review of the Business Plan has focussed on the need to accommodate the additional requirements of the Capital Programme as outlined in section 4 below.

3.2 Without the government announcement that abolished the borrowing cap, the demands of the existing stock, in particular the high-rise blocks, were likely to have reduced the number of new properties that the Council would have been able to build.

3.3 The Business Plan has been reviewed and updated to revise planning assumptions on right to buy sales, forecast interest rates and forecast rent increases from 1 April 2025.

3.4 Inflationary increases to revenue budgets have been applied where appropriate and a prudent provision for increases to the bad debt provision has been made.

3.5 No increases to service charges or garage rents are being proposed, other than an increase to the Central Heating Gas charge, which has been increasing as previously agreed, by a 50 pence per week 'stepped increase' over four years, until 100% of the costs are recovered.

3.6 Management Allowances

3.7 Allowances to managing agents in general are frozen, for the fourth and final year of the four-year rent decrease period. For future year forecasts it is assumed that allowances will increase by CPI from 1 April 2020 onwards.

3.8 On 6 June 2018 Cabinet approved 'alternative offer' proposals to the Bushbury Hill Estate Management Board (BHEMB) for future management and maintenance arrangements for 15 years for the Bushbury Hill Estate from April 2019. The offer proposed an uplift to the Management Allowance to £1,700 per property per year, resulting in an increase to the budget for BHEMB management allowances of £140,000.

3.9 As Managing Agents' allowances are based on historic calculations, the funding for the other managing agents (Tenant Management Organisations) will be reviewed in time for the budget setting process for 2020-2021.

4.0 The HRA Capital Programme

4.1 The Council wishes to use capital resources to maximise new build as far as possible but also needs to consider and prioritise the needs of the existing stock. As part of a long term, estate-based approach to asset management the remaining

life of stock should be taken into account and alternatives to refurbishment considered where appropriate.

4.2 The Council plans to make provision of £157.3 million up to 2023-2024 for the new build programme. This includes Phase 5 of the Small Sites programme (£4.0 million) schemes for community-led developments at Bushbury Hill (£5.0 million) and Inkerman Street, Heath Town (£1.5 million). £60.0 million is set aside for future homes development.

4.3 The Council's development programme will include low carbon 'Passivhaus' development, to address fuel poverty amongst residents. It will also take advantage of opportunities to buy in homes available under S106 arrangements from WV Living, subject to Cabinet approvals on a site by site basis. The Council's first Shared Ownership homes will be delivered in 2019, and further development of this tenure will be pursued to support affordable home ownership in the City.

4.4 Alongside the application of HRA capital funding, homes will be delivered using grant from Homes England and the Local Enterprise Partnership where appropriate, as well as applying S106 commuted sums for affordable housing arising from private developments in the city. Right to Buy receipts will be applied to new build homes to deliver against one-for-one targets.

4.5 The HRA Capital Programme currently includes an £11.1 million provision to refurbish the maisonette blocks at New Park Village. Further assessment has identified that a cost for this work would be in the range of £28.5 million which does not demonstrate value for money due to the quality and lifetime condition of the stock. An alternative would be to remodel this area of the estate, with the potential also to increase the number of homes available. A fuller option appraisal of this potential proposal will be the subject of a separate report to Cabinet later in 2019.

4.6 The HRA Capital Programme budget includes provision of £24.0 million for estate remodelling schemes.

4.7 The Heath Town estate refurbishment is progressing well but there is a need to increase the scope of the project to respond to emerging fire safety building requirements and renew cladding to the tower blocks. The additional budget requirement of £10.1 million will increase the total budget from £45.1 million to £55.2 million.

4.8 Further budget pressure has emerged following building reviews as work has started on the High-Rise Homes Mechanical and Electrical Infrastructure refurbishment programme. Actual cost data from the first blocks in the programme and new, detailed surveys of the condition and location of the services to be replaced has identified potential additional costs. The budget for this programme will be increased by £15.0 million to £31.9 million.

4.9 A report to Cabinet (Resources) Panel on 16 January 2018 approved a £2.5 million budget for the application of Right to Buy Receipts for Additional Social Housing. An annual provision of £2.0 million for this budget line is proposed to fund the Council's buy back policy and take advantage of any other opportunities that arise for one off home purchases. Individual purchases will be approved by the Cabinet Member for City Assets and Housing in consultation with the Service Director of Housing.

4.10 These issues are reflected in the five-year HRA Capital Programme in Appendix 1C. The programme will be monitored quarterly and reviewed annually to ensure a balanced budget.

5.0 Social Housing Green Paper 2018 and Update to the Housing and Planning Act 2016

5.1 The Social Housing Green Paper, '*A New Deal for Social Housing'* considered the issues facing all residents of social housing. Launched on 14 August 2018 it closed for public consultation on 6 November 2018. The Green Paper sets out five principles which underpin a new, fairer deal for social housing residents around the provision of safe and decent homes, improving how complaints are resolved, empowering tenants, tackling stigma and building the social homes that are needed to act as a springboard to home ownership.

5.2 The Government introduced changes in the Housing and Planning Act 2016 to restrict the use of lifetime tenancies by local authority landlords. This would require local authorities generally to grant tenancies on a fixed term basis and to review them towards the end of the fixed term period to decide whether to grant a further tenancy, which would have revenue implications. The Social Housing Green Paper marked a U-turn on this policy stating that these provisions would not be implemented 'at this time', in response to feedback from tenants on the importance of housing stability and security of tenure.

5.3 The Green Paper also confirmed that the Government will not bring the Higher Value Assets provisions of the Housing and Planning Act 2016 into effect, which would have been used to fund the voluntary Right to Buy (RTB) for housing association tenants. This legislation will be repealed when Parliamentary time allows. The Government did however confirm its continued support for the voluntary RTB pilot which commenced in the West Midlands this autumn.

5.4 The Government are considering reviewing the Decent Homes Standard, which was introduced in 2004. Nationally Decent Homes funding ceased in 2012, as did the requirement for local authorities to establish alternative models for the delivery of housing and residential landlord services. Only 32 Arms-Length Management Organisations (ALMO) arrangements remain active in the UK in 2018-2019. The National Review is also likely to include upgrading the energy performance of social homes as one way of improving fuel poverty for social housing tenants, as well as improvements to building safety (including fire safety management) and

planning for Better Homes from 2022. Any significant additional requirements will have implications for the Business Plan period.

5.5 In October 2018 the Government consulted local authorities on options for reforming the rules around the use of Right to Buy receipts. These included extending timeframes for spending receipts and caps on expenditure for acquisitions. The outcome of the consultation is not yet known.

6.0 Evaluation of alternative options

6.1 The 1% rent decrease is mandatory under Welfare Reform and Work Act 2016, therefore no alternative can be considered. The proposed service charges are consistent with existing policy to recover the cost of the service. An alternative option could be to reduce the charges, in which case the cost would not be recovered and a subsidy required from general rents.

6.2 The Council could decide not to plan to increase capital expenditure in response to the abolishment of the HRA borrowing cap and instead use the HRA net surplus to pay off debt instead of financing borrowing. However, it would not then be using available resources to improve and increase its housing stock as well as the requirement to respond to national building safety requirements.

7.0 Reasons for decisions

7.1 The Council is required to approve the mandatory 1% decrease to dwellings rent and approve the proposed service charges and garage rents.

7.2 The Council is required to approve a balanced HRA budget which is based on income forecasts, maintains supervision and management expenditure, provides for depreciation and finances borrowing.

7.3 A risk matrix is attached at Appendix 5. The risk register has been updated to reflect the economic and legislative setting in which it operates.

8.0 Financial implications

8.1 The four year 1% reduction to dwelling rents has been determined by central government and this was built into the Business Plan model during the 2016-2017 rent setting process. Increases to non-dwelling rents and service charges are set out in Appendix 2. Service charges have only increased where necessary to achieve full cost recovery.

8.2 The Business Plan model has been reviewed, assumptions updated and additional capital expenditure built in with the aim of providing sufficient resources to maintain existing stock and maximising new build. The HRA is expected to have sufficient resources to fund £1.96 billion of capital works that will be required to its properties over the next 30 years, as well as meeting its management and maintenance obligations in the same period. Inflation forecasts have been updated in line with the latest figures from the Office for Budget Responsibility. Due to the

possible forthcoming period of economic uncertainty it will be necessary to closely monitor the data underpinning assumptions in the model and forecast the effect of any changes.

8.3 The 5-year Capital Programme is reviewed quarterly and the latest version to include a budget for estate remodelling, increased budgets for Heath Town refurbishment and High Rise mechanical and electrical infrastructure and increased resources for new build is shown in Appendix 1C.

8.4 As part of the self-financing arrangements introduced from April 2012 there was a cap placed on the level of debt that could be incurred in the HRA, the maximum amount for Wolverhampton being £356.8 million. In September the Prime Minister announced that this debt cap would be abolished to give councils the freedom to borrow more to increase the provision of new build housing.

8.5 The increased borrowing built into the business plan has been assessed as affordable, taking into account the interest cover provided by the surpluses generated and the extent that those surpluses are used to pay down debt. The levels of debt and continued affordability will be closely monitored.

[JM/10012019/H]

9.0 Legal implications

9.1 Statutory requirements as to the keeping of a Housing Revenue Account are contained in the Local Government and Housing Act 1989 ('the 1989 Act'). The 1989 Act includes a duty, under Section 76 of the 1989 Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.

9.2 Under Section 24 of the Housing Act 1985, local housing authorities have the power to "*make such reasonable charges as they may determine for the tenancy or occupation of their houses*". Section 24 also requires local authorities, from time to time, to review rents and make such changes as circumstances may require. This provision conferring discretion as to rents and charges made to occupiers, is now subject to further restrictions arising from the provisions of the Welfare Reform and Work Act 2016.

9.3 Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively.

9.4 The Council has nevertheless undertaken to consult with tenants before seeking to change rent and other charges.

9.5 It is further provided by Section 103 of the Housing Act 1985 in relation to secure tenancies, which also applies in respect of introductory tenancies, that its tenants

are notified of variation of rent and other charges at least 28 days before the variation takes effect by service of a notice of variation.

[DC/13122018/Z]

10.0 Equalities implications

10.1 Notwithstanding the legal requirement to reduce rents for the fourth year running, there is a difficult balance to be struck in deciding the levels at which rents and services charges are set and the income required to maintain and to improve services and properties. This is based upon a thirty-year forecast which sets out indicative levels of future rental income and forecast changes to expenditure levels. The Council has always operated a very open and consultative approach to service and rent reviews. Events, newsletters and social media have been utilised to engage with tenants.

10.2 An Equality Analysis has been completed and there are no implications to consider further. Details of the consultation with residents and stakeholders are attached at Appendix 3.

11.0 Environmental implications

11.1 This report has no direct environmental implications. The investment and improvement of the city housing stock will have a significant positive impact on the overall city environment.

12.0 Human resources implications

12.1 There are no direct human resources implications resulting from this report.

13.0 Corporate landlord implications

13.1 There are no direct Corporate Landlord implications resulting from this report.

14.0 Health and Wellbeing implications

14.1 This report has no direct health and wellbeing implications. The investment and improvement of the current city housing stock and the additional housing created by new build programmes will have a significant positive impact on the health and wellbeing of current and future tenants.

14.0 Schedule of background papers

15.1 Welfare Reform and Work Act 2016

Housing and Planning Act 2016

The Housing Revenue Account self-financing determinations 2012

Cabinet, 6 June 2018 – 'Bushbury Hill Estate Management Board Update'

15.0 Appendices

Schedule of Appendices

1	**Housing Revenue Account Business Plan**
1A	30-year Business Plan
1B	Medium term Business Plan
1C	Capital Programme
2	**Recommendations concerning income**
2A	Non-dwelling rents
2B	Service charges and heating charges
2C	Hostel rents and charges
3	**Summary of consultation responses**
4	**Background to the Housing Revenue Account**
5	**Risk analysis**