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CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 22 January 2020

Report title	Housing Revenue Account Business Plan 2020-2021 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 Directors	Kate Martin, Director of City Assets and Housing Claire Nye, Director of Finance	
Originating service	City Housing, Finance	
Accountable employee	Kate Martin Tel Email	Director of City Assets and Housing 01902 554841 Kate.martin@wolverhampton.gov.uk
Report to be/has been considered by	Senior Executive Board Housing and Assets Leadership Team Better Homes Board	14 January 2020 5 December 2019 11 December 2019

Recommendations for decision:

The Cabinet recommends that Council:

1. 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 2020-2021 at Appendix 1 to this report
    b) The Capital programme for 2020-2021 to 2024-2025 at Appendix 2 to this report that includes the following among the proposed investment plans:
        - Continued investment in the New Build Programme
        - Further investment for the Heath Town Estate refurbishment programme

- Plans for estate remodelling
- Resources for a programme of planned Medium and Low-Rise Fire Safety Improvements.

2. Approves the implementation of an increase of 2.7% to social housing rents in accordance with the Welfare Reform and Work Act 2016 and gives 28 days' notice to all secure and introductory tenants of the rent increase from 1 April 2020.

3 Approves the rates for garage rents and service charges set out in Appendix 3 to this report and formally notify tenants.

4 Approves Management Allowances for Managing Agents as follows:

- Wolverhampton Homes - **£40,090,000**
- Bushbury Hill Estate Management Board - **£1,460,000**
- New Park Village Tenant Management Co-operative **- £383,000**
- Springfield Horseshoe Housing Co-operative **- £360,000**
- Dovecotes Tenants Management Organisation **- £1,113,000**

5 Delegates authority to the Cabinet Member for City Assets and Housing in consultation with the Director of City Assets and Housing to approve an adjustment of allowances relating to the management of 162 properties currently managed by Wolverhampton Homes that have elected to be managed by Bushbury Hill Estate Management Board.

Recommendations for noting:

The Cabinet is asked to note:

1. The consultation responses as outlined at Appendix 4 to this report.

2. From 1 April 2020 the Regulator of Social Housing will regulate social rents charged by Local Authorities. The rent increase at 2.7% is chargeable in line with Government policy set out in the Rent Standard 2020.

3. The issues discussed in the 2018 Social Housing Green Paper which sets out five principles for a new fairer deal for social housing tenants 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 inform future building safety planning. The Hackett Review 2018 makes recommendations for residential building safety and improvements to be considered as part of all future Housing Revenue Account (HRA) asset management and improvement planning.

5. Asset planning in 2020-2021 will look at the future management and asset planning for non-traditional homes, including high-rise homes.

6. A review of Tenant and Leaseholder engagement and participation arrangement, to include the role of the Wolverhampton Federation of Tenants Associations to ensure continued strong participation and ‘tenant voice’. This work supports the monitoring of compliance against the Consumer Standards and strengthened customer insight.

7. A review of the HRA Total Operating Model from 2020-2021 will consider future planning for Better Homes Investment (from 2022), the outcomes of the National Building Safety Programme, the future HRA Asset Management Plan and future Management arrangements for Housing Landlord Services.

1.0 Purpose

1.1 This report presents an updated Housing Revenue Account (HRA) Business Plan 2020-2021 for recommendation to Full Council which is intended to balance 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 2020-2021, including proposed rents and service charges to take effect from 1 April 2020, and a proposed HRA Capital Investment Programme for the period 2020-2021 to 2024-2025 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 its HRA Business Plan. The Business Plan is monitored quarterly and reviewed annually to ensure that assumptions remain robust and resources within the plan are enough to meet expenditure requirements. Appendix 5 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 was mandatory, and the four-year period has now ended.

2.4 The new Rent Standard has been finalised after consultation and will come into force on 1 April 2020. This followed a Direction from the Secretary of State for Housing, Communities and Local Government in February 2019 which set out the Government's rent policy for social housing for the next five years and the requirement for the Regulator of Social Housing to undertake the regulation of Local Authority Social Housing Rents, aligning the regulation with that of private-registered providers.

2.5 Key elements of the direction are to restrict rent increases on social and affordable rent properties by up to CPI plus 1% annually from 2020 for a period of at least five years. CPI is based on the published figure for September of the previous year. The direction also allows discretion over the rent set for individual properties with a 5% flexibility for general needs stock.

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 2020-2021

3.1 The Business Plan has been reviewed in 2019 and updated to revise planning assumptions on rent increases, future interest rates, and expected numbers of right to buy sales.

3.2 The number of HRA dwellings is currently around 21,900; of which around 12,000 are houses and bungalows, 5,000 are medium and high rise apartments and the balance of around 4,900 are low rise apartments. Around 1,200 of these properties are reaching a stage where it will be uneconomical to continue to maintain them. Therefore, the focus is on maximising resources available to finance capital expenditure to balance the needs of the existing housing, improve and redevelop estates and provide much needed additional social and affordable housing units.

3.3 The Business Plan is based on applying a rent increase of CPI plus 1% to social and affordable rents for the five years commencing 1st April 2020, in line with government policy set out in the Rent Standard 2020. Based on the CPI figure of 1.7% published at September 2019 the rent increase proposed for 1st April 2020 is 2.7%. The same increase is applied to garage rents.

3.4 Inflationary increases to budgets have been applied where appropriate and a prudent provision for increases to the bad debt provision, taking into account the challenge Universal Credit has brought to rent collection.

3.5 No increases to service charges are being proposed, other than a review to charges for the Temporary Accommodation managed under the HRA.

3.6 HRA Revenue Budget

3.7 The number of right-to-buy properties since discounts were increased in 2012 has had an impact on stock numbers, not wholly offset by new build and acquisition of additional stock. Table 1 below illustrates the decrease in stock numbers over the last five years, an overall decrease of 4.6%.

3.8 Table 1 – Property numbers over five years

Stock Numbers	2015-2016 Outturn	2016-2017 Outturn	2017-2018 Outturn	2018-2019 Outturn	2019-2020 Forecast
Opening	22,960	22,732	22,491	22,214	21,995
Right to Buy sales	(222)	(249)	(288)	(265)	(265)
Other disposals	(20)	(4)	(5)	-	-
Additions	20	19	16	46	152
Closing	22,738	22,498	22,214	21,995	21,882
Cumulative reduction	(222)	(456)	(733)	(952)	(1,065)

3.9 HRA revenue budgets for management and maintenance have not reduced over the period of the 1% rent cut, on a per property basis they have increased. Therefore, current management and maintenance budgets are at a higher proportion of turnover than before the rent cut period, which is not sustainable longer term and reduces the resources available to finance capital expenditure.

3.10 95% of the management and maintenance budget is spent on management agents' allowances. These have in general been based on a historic calculation and not linked to property numbers. Basing management allowances on property numbers would ensure that HRA resources continue to be used effectively.

3.11 Managing agents have been planning for an inflationary increase to allowances in 2020-2021 at the end of the rent cut period. Allowances have been frozen during the period of the rent cut and managing agents have worked hard to maintain standards of service during this time. The proposed allowances set out in recommendation 4 of this report include an increase of 2.0%, based on inflationary assumptions that had been used for planning purposes. A review of allowances linked to property numbers will take place as part of the HRA operating model review in time for the 2021-2022 financial year.

3.12 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. As a result of the offer BHEMB allowances are already linked to property numbers.

3.13 The management allowances for Bushbury Hill Estate Management Board (BHEMB) include £14,000 for the management of new Homes developed by the Council at the Tap Works site. In accordance with the BHEMB Better Homes Partnership agreed in 2018, the tenants of 162 properties currently managed by Wolverhampton Homes (WH) have taken part in a voluntary extension ballot resulting in 76% of those voting electing to be managed by BHEMB. When the transfer of management takes place, this will result in an adjustment to the allowances of BHEMB and WH which recommendation 5 of this report recommends delegating approval to the Cabinet Member for City Assets and Housing in consultation with the Director of City Assets and Housing.

4.0 The HRA Capital Programme Priorities

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 property portfolio. 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 New Build properties are built to the latest environmental standards to be well insulated and fuel efficient, with some also including photo-voltaic panels. Refurbishment programmes also include measures to improve insulation and heating systems to help to reduce consumption of resources and fuel poverty.

4.3 In January 2019, the Council made provision of £157 million up to 2023-2024 for the new build programme, including £60 million set aside for future new build housing development. £25 million has been earmarked as provision to purchase affordable housing developed by WV Living on key future schemes around the city. This includes £14.2 million that had been set aside for site-specific purchases from WV Living at an early stage before plans for the sites had been finalised by WV Living Board. Proposals will come forward for member approval on a site by site basis.

4.4 A budget of £5.0 million has been set aside for a new build development on council land at Old Fallings Crescent. It is proposed to increase the budget for the new homes at Burton Crescent by £600,000 due to an increase in specification for the supported housing units. On 23 July 2019 Cabinet (Resources Panel) approved an additional £580,000 to fund four additional units at the Tower and Fort development site. These units are longer available to purchase from the contractor, so this budget is no longer required.

4.5 The Council's development programme seeks to prioritise the type of homes developed in order to increase homes available for those with priority need under the allocations policy, alleviate homelessness and help people to live independently in their own homes. The programme includes some low carbon 'Passivhaus' development, to help address fuel poverty and some shared ownership units.

4.6 In order to minimise the cost of borrowing to the HRA to fund new build development, the use of capital receipts and external funding will be maximised. 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.

4.7 The Heath Town estate refurbishment is progressing well and the works to the deck access blocks are half way to completion, with works to the tower blocks to start in 2021. During the programme issues have emerged that have led to increased scope and costs. It has been decided to increase the scope to include additional CCTV, lighting and replacement windows on the tall tower blocks. Problems underground need to be addressed and following guidance regarding fire safety some enhancements to deck access were also required. These issues have resulted in an increased budget requirement of £11.4 million.

4.8 Prior to 2019-2020 the HRA Capital Programme included £11.1 million provision to refurbish the maisonette blocks at New Park Village. In 2019-2020 further assessment identified that the cost of these works would be in the region of £28.5 million. It was concluded that this did not demonstrate value for money due to the quality and lifetime condition of the stock. In response to this, Wolverhampton Homes initiated a study to establish the potential for redevelopment of the Ellerton Walk maisonette blocks, where most of the investment is required. This illustrated that there is potential for the estate to be reconfigured, to demolish the failing blocks, and create new homes, increasing the number of homes overall, and delivering a better estate environment. The redevelopment can also capture some poor-quality bungalows alongside Ellerton Walk, along with the current New Park Village office and some retail units. Community consultation demonstrated support for this approach in January 2019. This proposal has a budget requirement of £38.0 million.

4.9 New work programmes are proposed for emerging priorities on existing stock as part of the Council's continued commitment to building safety. Following reviews of Fire Safety, a programme of improvements to medium and low-rise apartment blocks is proposed, with a five year budget of £13.7 million.

4.10 From 2023-2024 a programme of remedial works to non-traditional properties is proposed, with a starting annual budget requirement of £2.2 million in 2023-2024 and 2045-2025. Asset management planning for the future will involve a review of non-traditional properties and high-rise estates

4.11 A review of HRA assets leased to organisations for non-Council use is ongoing; including, maintenance requirements, strategic relevance and value for money. Whilst current work programmes are funded from existing budgets, this review may identify future resource requirements.

4.12 A budget of £1.0 million in 2020-2021 for an improvement programme at the Bushbury Hill estate, managed by BHEMB is proposed. This will fund replacement bathrooms and kitchens.

4.13 Additional budgets of £33.1 million to enable planned rolling maintenance and safety programmes to continue in the medium term to include 2024-2025 have been built into the capital programme.

4.14 Paragraph 3.2 refers to around 1,200 non-traditional properties reaching the stage where it is not economical to continue to maintain them. This provides opportunities for estate redevelopment which will require funding but will also reduce future maintenance costs. Where possible, redevelopment will be designed to increase the number of properties. Therefore, a proportion of the unallocated new build funding of £40.5 million is likely to be required as funding for estate remodelling.

4.15 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 Legislative and Policy Changes

5.1 Social Housing Green Paper 2018; 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. The Council and its managing agents continue to work to work to improve its engagement with tenants.

5.2 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 Organisation (ALMO) management 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.

5.3 The Fitness for Human Habitation Act came into force in 2019. It gives tenants a right to take action in the courts when a landlord fails to maintain a property that is fit for human habitation. The Act covers all existing tenancies in both the social and private rented sectors.

5.4 The Regulatory Framework for Social Housing 2012; the Regulator of Social Housing regulates registered providers to promote viable, efficient and well-governed social housing provision. The Consumer Standards, applicable to Local Authority landlords, aims to ensure tenants are safe in their homes, given appropriate degree of choice and protections, and can hold landlords to account. When a Council contracts out its housing management service, to an ALMO or managing agent, as is the case in Wolverhampton, compliance with the standards remains with the Council. To ensure Councillors are provided with oversight and assurance that the standard is being met, reports will be provided to Our City Scrutiny Panel from April 2020.

5.5 Housing Allocations Policy; during 2019-2020 the Council and its managing agents have led the development of and consulted upon an updated Allocations Policy. Supported by extensive consultation, the proposed policy will update the Councils objectives to reflect the need to:

A. Ensure people in the greatest housing need have the greatest opportunity to access suitable housing that best meets their needs.

B. Make use of a range of housing options and tenures to prevent and relieve homelessness.

C. Make best use of the Council's and partner registered providers housing stock.

D. Manage applicants' expectations by being realistic about availability of stock, to support them in making informed choices about their housing options, and the extent to which they are able to express reasonable preference.

E. Ensure that the Council's legal duties and corporate responsibilities are met and that the policy contributes to delivering the Council's priorities.

5.6 In order to implement the new Allocations Policy during 2020-2021 significant changes will be made to the Northgate IT systems. A programme of support will be developed to support applicants to Homes in the City to move from the existing system to the new policy.

5.7 Further consideration will be made to the way Council homes are allocated to contribute to the 'best use of stock' including; scoping of an Accessible Homes Register, renewal of the Nominations Agreements with Registered Housing

Providers and analysis of the use of flexible tenancies for high demand properties, such as purpose build built adapted properties and houses which have four or more bedrooms.

5.8 An ongoing review of Temporary Accommodation will provide a commissioning approach to ensure the Council has access to an appropriate supply of accommodation. Additional supply will be sourced to ensure value for money and accessibility.

6.0 Evaluation of alternative options

6.1 The proposed rent increase of 2.7% is chargeable in line with the Rent Standard 2020. Not applying an increase would considerably reduce the resources available to fund services and the capital programme. 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 continue to respond to national building safety requirements.

7.0 Reasons for decisions

7.1 The Council is asked to approve the 2.7% increase to dwellings rent and approve the proposed service charges and garage rents to enable the aspirations in the business plan to be met.

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 6. The risk register has been updated to reflect the economic and legislative setting in which it operates.

8.0 Financial implications

8.1 Increases to non-dwelling rents and service charges are set out in Appendix 3. 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. By increasing

rents the HRA is expected to have sufficient resources to fund £2.0 billion of capital works required over the next 30 years, as well as meeting its management and maintenance obligations in the same period and adding to the housing stock. 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 five-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 2.

8.4 The Council now has the freedom to borrow to increase the provision of new build social and affordable housing in line with prudential indicators. HRA borrowing will be monitored going forward to ensure that the revenue surplus will always be sufficient to fund forecast interest on debt with a margin built in to allow for interest rate fluctuations.

[JM/07012020/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/08012020/A]

10.0 Equalities implications

10.1 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 Wolverhampton Homes provide support to tenants to enable them to make rent payments including help and advice in budgeting.

10.3 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 4.

11.0 Climate change and environmental implications

11.1 This report has no direct climate change and environmental implications. However, 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.

13.2 Corporate landlord are supporting the review of assets leased to other organisations.

14.0 Health and Wellbeing implications

14.1 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

14.1 Welfare Reform and Work Act 2016

14.2 Housing and Planning Act 2016

14.3 The Housing Revenue Account self-financing determinations 2012

15.0 Appendices

15.1 Schedule of Appendices

	Housing Revenue Account Business Plan
1	30-year and Medium Term Business Plan
2	Capital Programme
	Recommendations concerning income
3	Non-dwelling rents, Service charges and other rents and charges
4	**Summary of consultation responses**
5	**Background to the Housing Revenue Account**
6	**Risk analysis**