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CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 19 January 2022

Report title	Housing Revenue Account Business Plan 2022-2023 including Rent and Service Charges	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Bhupinder Gakhal, City Assets and Housing Councillor Ian Brookfield, Leader of the Council	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Ross Cook, Director of City Housing and Environment Claire Nye, Director of Finance	
Originating service	Housing, Finance	
Accountable employee	Jo McCoy Andrew Bryant Tel Email	Strategic Finance Service Lead – Landlord Services 01902 558433 andrew.bryant@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	16 December 2021

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 2022-2023 at Appendix 1 to this report.
   b. The Capital Programme for 2022-2023 to 2026-2027 at Appendix 2 to this report that includes the following among the proposed investment plans;
      - £118.7 million for new build development
      - £42.6 million provision for estate remodelling
      - £50.4 million to complete the refurbishment of the Heath Town estate

- £79.8 million for programmes to high rise estates to include fire safety improvements, infrastructure replacement, retrofitting of sprinklers and external works.

2. Approves the implementation of an increase of 4.1% to social housing rents in accordance with the Welfare Reform and Work Act 2016 and to give 28 days notice to all secure and introductory tenants of the rent increase from 1 April 2022.

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

4. Approves Management Allowances for Managing Agents as follows;

   - Wolverhampton Homes - £40,460,000
   - Bushbury Hill Estate Management Board - £1,780,000
   - New Park Village Tenants Management Organisation - £395,000
   - Dovecotes Tenants Management Organisation - £1,148,000

Recommendations for noting:

The Cabinet is asked to note:

1. The issues raised during the consultation have been communicated to the managing agents and will also be provided to tenants as areas for possible tenant scrutiny during 2022-2023.

2. From 1 April 2020 the Regulator of Social Housing has regulated social rents charged by Local Authorities. The Rent increase at 4.1% is chargeable in line with Government policy set out in the Rent Standard 2020.

3. The Charter for Social Housing Residents: Social Housing White Paper (2020) sets out the 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 and the Building Safety Bill introduces regulation seeking greater assurance on the safety of multi-occupied buildings.

5. Asset planning in 2022-2023 will look at the future management and asset planning for non-traditional homes, including high-rise homes.

1.0 Purpose

1.1 This report presents an updated Housing Revenue Account (HRA) Business Plan 2022-2023 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 2022-2023, including proposed rents and service charges to take effect from 1 April 2022, and a proposed HRA Capital Programme for the period 2022-2023 to 2026-2027 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 Housing Revenue Account (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 provides more detail on HRA self-financing.

2.2 In February 2019, the Secretary of State for Housing, Communities and Local Government gave a direction 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. The resulting Rent Standard came into force on 1 April 2020.

2.3 Key elements of the direction are to restrict rent increases on social and affordable rent properties by up to Consumer Price Index (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.

2.4 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.

3.0 The HRA Business Plan 2022-2023

3.1 The Business Plan has been reviewed in 2021 and updated to revise planning assumptions on rent increases, interest rates, and right to buy sales. The forecast for 2022-2023 includes a reduction in rental income due to it taking longer to refurbish and re-let empty properties because of Covid-19 working practices.

3.2 The number of HRA dwellings is currently around 21,700; of which around 11,900 are houses and bungalows, 5,000 are in medium and high-rise blocks and the balance of around 4,800 are low rise flats.

3.3 Around 4,100 of these properties are non-traditional construction of which 1,100 are reaching a stage where it will be uneconomical to continue to maintain them. These properties will form part of a detailed asset strategy and proposed estate regeneration. Therefore, the focus is on maximising resources available to finance capital expenditure to balance the needs of the existing stock, improve and redevelop estates and provide much needed additional social and affordable housing units.

3.4 The Business Plan is based on applying a rent increase of CPI plus 1% to social and affordable rents for the next three years, commencing 1st April 2022, in line with government policy set out in the Rent Standard 2020. Based on the CPI figure of 3.1% published September 2021 the rent increase proposed for 1st April 2022 is 4.1%. The same increase is applied to garage rents.

3.5 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 and the additional impact of Covid-19 on rent arrears.

3.6 In terms of service charges, modelling indicates that an increase across all service charges by CPI 3.1% will see full recovery of associated service charge costs.

4.0 HRA Revenue Budget

4.1 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. However, the rate of decrease has slowed in the last three years. Table 1 below illustrates the decrease in stock numbers over the last five years, an overall decrease of 3.6%.

4.2 Table 1 – Stock numbers over five years

Stock Numbers	2017-2018 Outturn	2018-2019 Outturn	2019-2020 Outturn	2020-2021 Outturn	2021-2022 Forecast
Opening	22491	22,214	21,995	21,926	21,808
Right to Buy sales	(288)	(265)	(228)	(155)	(223)
Other disposals	(5)	-	-	(9)	-
Additions	16	46	159	46	97
Closing	22,214	21,995	21,926	21,808	21,682
Cumulative reduction	(277)	(496)	(565)	(683)	(809)

4.3 90% 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. An independent review of the HRA Business plan by consultancy firm Savills in January 2021 confirmed that current management and maintenance budgets within the HRA are comparable with other councils and recommended considering linking allowances to property numbers going forward. Therefore, using current allowances as a base position, future allowances will be based on property numbers with annual inflationary increases. This ensures that management and maintenance costs remain affordable over the life of the business plan.

4.4 The 2021-2022 inflationary pay award has not been settled but a pay increase is expected with a further award for 2022-2023 CPI inflation for November 2021 was 4.2% and may reach 5% by the end of the financial year, increasing costs to service providers. Therefore, it is proposed that management allowances per property will be increased by inflation of 3.1% to cover a blend of the increase in pay and general inflation.

4.5 The Council is incurring increased costs from the regulatory role which have been reflected in the revenue budget. The retained element of the budgets includes an annual budget of £70,000 for Tenants Scrutiny, a contract has been successfully awarded with service delivery due to commence from February 2022.

5.0 The HRA Capital Programme

5.1 The Council wishes to use capital resources to maximise the provision of additional homes as far as possible but also needs to consider and prioritise the needs of the existing stock with particular emphasis on building safety, decency and energy efficiency. As part of a long term, estate-based approach to asset management the remaining life of stock will be taken into account when making investment decisions and alternatives to refurbishment considered where appropriate.

5.2 The HRA has sufficient resources for work programmes currently in progress but indications are that it will be challenging to meet all the required stock investment needs and fund stock decarbonisation works in the long term. It is therefore likely there will be a need in the future to prioritise investment decisions.

5.3 The construction industry is currently facing unprecedented market conditions with shortages of key building materials coupled with a post-lockdown surge in demand. There are also regional pressures affecting the supply chain and shortages of technical and professional staff. These factors have all combined to increase costs and restrict ability to deliver which has impacted on capital projects and budget requirements.

5.4 The programme includes new homes provision of £104.1 million for the next five years from 2022-2023, including £34.2 million set aside for future new build schemes. £20.0 million of this provision has been earmarked to purchase affordable housing developed by WV Living on key future schemes around the city. Proposals will come forward for member approval on a site by site basis, including the development on the site of the former Northicote school.

5.5 The Council's development programme seeks to prioritise the type of housing stock 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.

5.6 Alongside the application of HRA capital borrowing and capital receipts, 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.

5.7 Development has begun on site for Phase 1 of the Heath Town new build development with Phases 2 and 3 planned to start in 2022-2023. The works are expected to complete in 2024 resulting in 211 new homes.

5.8 The Heath Town estate refurbishment managed by Wolverhampton Homes is continuing well, with the first phase (the improvement of the deck-access blocks) now complete. Work commenced on the second phase, which is the improvement of the eight tower-blocks on the estate, in September 2021. This work includes the improvement of fire safety features within the blocks and includes the installation of sprinkler systems. In response to new legislation and the Council's decarbonisation commitments, the work to the estate will include a new energy centre and more efficient heating systems for residents. The budget required to complete the works from 2022-2023 is forecast to be £39.3 million.

5.9 The work programmes being carried out on the high-rise estates to install external wall insulation, upgrade balconies and windows, renew the mechanical and electrical infrastructure and improve fire safety and retrofit sprinklers have combined budgets of £79.8 million.

5.10 Paragraph 3.3 refers to the 4,100 non-traditional built homes and the detailed Asset Management Strategy that is being prepared to address in what instances these homes will continue to be maintained or replaced, which should also provide some opportunity to make use of unallocated new build funding to bring forward additional homes. This work will be done in consultation with local communities as it progresses.

5.11 The programme includes a budget of £41.3 million for estate remodelling, but it is expected that a large proportion of this budget will be required to fund the development programme at New Park Village. A report was approved at Cabinet Resources Panel in February 2021, which set out the progress being made for the New Park Village development. A housing needs analysis is currently being carried out with residents, the results of which will be communicated to an Architect and Master Planning consultant to ensure that the scheme is viable for the Tenants Management Co-operative (TMC) and the right mix of properties is built to adequately meet demand for existing and future residents who will reside on the estate. The architect procurement is likely to commence early 2022, with a potential start on site for the newbuild towards the end of 2022. TPAS have also recently been appointed as Independent Tenant and Home Advisors on the redevelopment to help draw up a Tenant and Resident's Charter and provide suitable training for tenants and residents as well as ensuring the existing community is empowered in the decision-making process.

5.12 The programme also includes £4.5 million for the refurbishment of Bond House, a Council owned city centre commercial building that will be converted into 34 units of supported accommodation and services for single people with a history of rough sleeping. The project will receive government grant funding of £320,000 towards the conversion costs and will be managed by Wolverhampton Homes.

5.13 These projects above are all 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.

5.14 Early work indicates that to make provision in the longer term capital programme to reduce the carbon impact of the housing stock in line with the council’s strategic priority and to meet Government targets to bring all greenhouse gas emissions to net zero by 2050, it is likely to add in the region of £700 million to future costs. External funding contributions will be sought to ensure that this does not impact on the ability of the HRA to fund additional homes over and above the requirements to replace the non-traditional properties referred to 4.10.

6.0 Legislative and Policy Changes

6.1 On 17 November 2020 the Government published The Charter for Social Housing Residents: Social Housing White Paper, which follows on from the Social Housing Green Paper released in 2018 and sought to set out the issues facing social housing tenants and the actions that could be taken so they are safe, protected, listened to and able to influence how their homes are managed.

6.2 The White Paper details the new requirements for social housing landlords, one of the most significant is the strengthening of the Regulator of Social Housing, moving them from a reactive to a proactive consumer regulatory regime. This will require the proactive oversight of the Consumer Standards; regulation which aims to ensure tenants are safe in their homes, given appropriate degree of choice and protections, and can hold landlords to account. This will mean that social housing landlords will be subject to four yearly inspections as well as an annual review of newly introduced KPIs. The White Paper makes clear that the Regulator will be seeking assurance that where 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 are to be provided to Scrutiny Panel on a bi-annual basis from September 2021 onwards.

6.3 The White Paper sets out that Government will review the Decent Homes Standard to consider if it should be updated, including how it can better support the decarbonisation and energy efficiency of social homes, and improve communal and green spaces. 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. There are 26 ALMO management arrangements that remain active in the UK in 2021.

6.4 In its commitment to supporting more households into home ownership, the White Paper makes clear Government wants to see local authorities make the most of borrowing flexibilities and to innovate to deliver more homes for the future.

6.5 Government has said that it will introduce the legislation needed to implement the Social Housing White Paper as soon as it is practicable. The Social Housing Regulator has advised that although the Consumer Standards cannot be implemented yet, social housing providers should not wait for regulation to look at how they can improve services and engagement with tenants.

6.6 Government has also published a Fire Safety Bill which puts in place an enhanced regulatory regime for all buildings, including a more stringent regime for the design, construction, day-to-day management and maintenance of higher-risk buildings including high rise. Any significant additional requirements relating to improvements to building safety (including fire safety management), energy efficiency, decency and the planning for Better Homes from 2022 will have implications for the Business Plan period.

6.7 The Fitness for Human Habitation Act; came into force in 2019, 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.

6.8 During 2019-2020 the Council and its managing agents led the development of an updated Housing Allocations Policy. Supported by extensive consultation, the updated policy which was adopted by the Council in February 2020, updated the Council’s 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.

6.9 Following significant changes to the NEC Housing IT system during 2020-21, the new Allocations Policy was applied 28 September 2021, with applicants to Homes in the City supported in moving from the previous system to the new policy.

6.10 Further developments 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 are four bed or larger.

7.0 Evaluation of alternative options

7.1 The proposed rent increase of 4.1% is chargeable in line with Government policy set out in the Rent Standard 2020. Not applying an increase would 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.

7.2 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.

8.0 Reasons for decisions

8.1 The Council is asked to approve the 4.1% increase to dwellings rent and garage rents and approve the proposed increase to service charges of 3.1% to enable the aspirations in the business plan to be met.

8.2 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.

8.3 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.

9.0 Financial implications

9.1 A full listing of non-dwelling rents and service charges is set out in Appendix 3.

9.2 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 assumptions in the model were externally validated as part of an external review by Savills in January 2020.

9.3 By increasing the rent the HRA is expected to have sufficient resources to fund £2.4 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 economic forecasts. 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. The five year revenue budget and 30 year forecasts are summarised at Appendix 1

9.4 The 5-year Capital Programme is reviewed quarterly and the latest version is shown in Appendix 2. This budget combines the budgets for the High Rise Sprinkler programme and Fire Safety improvements together with the budgets for High Rise Mechanical and Electrical upgrade since the work programmes are being delivered on an integrated estate based basis. As well as adding a further year to rolling replacement programmes the budget allows for the increased scope of refurbishment works at Heath Town.

9.5 The Council now has the freedom to borrow to increase the provision of new build housing in line with prudential indicators. HRA borrowing is monitored 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/23122021/H]

10.0 Legal implications

10.1 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.

10.2 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.

10.3 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.

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

10.5 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.
[TC/07012022/G]

11.0 Equalities implications

11.1 Notwithstanding the legal requirement to increase rents by no more than CPI plus 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.

11.2 Whilst usually face-to-face consultation opportunities would be provided (via the Wolverhampton Homes Get Togethers and Tenant Management Organisation facilitated opportunities), the impact of Covid-19 restrictions in the first half of 2021 and ongoing concerns regarding public events has prevented these opportunities from occurring. The Council faced similar concerns in 2020 and successfully conducted consultation online.

11.3 A similar approach was taken this year, on the Councils webpage (22 November – 05 December 2021), and promoted by using social media and email to 10,000 (45.8%) Council tenants. However, unlike the 2020 consultation, there was a limited response.

11.4 As part of Council's commitment to involving tenants and other service users in the management of housing services, City of Wolverhampton Council invites views from tenants and leaseholders in respect of rent and service charges and the Council's priorities for 2022-2023.

11.5 Themes arising from the consultation included concerns regarding financial struggles, the continuing impact of Covid-19 and high energy costs. Wolverhampton City Council aims to develop a co-ordinated and coherent strategic response to the increased risk of hardship faced by Wolverhampton citizens due to the far-reaching economic and social implications of Covid-19.

11.6 The aim of the Council's Financial Inclusion Strategy is to achieve a financially inclusive Wolverhampton where residents have access to a comprehensive range of appropriate financial and money advice services, as well as the knowledge, skills and confidence to maximise their own financial well-being.

11.7 The strategy aims to maximise support with essential living costs, gain optimal physical and emotional wellbeing and ensure supportive and connected communities for the people of Wolverhampton. The Financial Inclusion Strategy will provide a robust framework that will enable a shared understanding of the situation, consolidate and develop a range of initiatives to mitigate risk and implement early and preventative action. The Strategy will provide a single document to ensure that Council Leaders, our partners and the public are regularly updated on progress

11.8 An Equality Analysis has been completed and there are no implications to consider further.

12.0 All other implications

12.1 The investment and improvement of the city housing stock will have a significant positive impact on the overall city environment. The strategic planning that will take place to ensure that all council homes are as energy efficient as they can be will make a major contribution to ensure that the Council meets its carbon reduction targets.

12.2 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.

12.3 As detailed in point 11, consultation opportunities have excluded face-to-face consultation with tenants this year due to Covid-19 restrictions.

13.0 Schedule of background papers

13.1 Welfare Reform and Work Act 2016

13.2 Housing and Planning Act 2016

13.3 The Housing Revenue Account self-financing determinations 2012

14.0 Appendices

14.1 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	**Background to the Housing Revenue Account**
5	**Risk analysis**