SELBY
DISTRICT COUNCIL

TO ACT FOR OTHERS

Report Reference Number: C/21/10

To:	Council
Date:	24 February 2022
Ward(s) Affected:	ALL
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Title: Housing Revenue Account (HRA) Business Plan – 2021/22 Review

Summary:
On 5th December 2019 Executive approved the final version of the Council's Housing Revenue Account Business Plan. This plan detailed how, over the period 2020-2025, the Council would both invest in current stock, as well as increase overall housing supply in the district. It also provided a long-term financial forecast for the HRA over the period 2020-2050. It is now time to complete a review of this plan, in light of the time that has passed, as well as the unprecedented circumstances created by the COVID-19 pandemic. As a result of this, along with other socio-economic factors, the Council faces significant financial difficulties in trying to maintain the Business Plan's commitments, the key issues being:

- The introduction of new and essential safety investment in our properties.
- A continued deficit within the Housing Development Programme meaning we continue to sell more properties via Right to Buy than we replace.
- An ever-growing decarbonisation agenda resulting in a widescale need for property refurbishment and potential regeneration.
- Increased costs of materials and labour meaning we receive less for our money.

Growing cost and income pressures mean that changes to the Council's plans for debt repayment are needed and the revised Business Plan proposes that, rather than maintain repayment against the original 30 year timeline, repayment is extended to match the loans actually taken out. The potential for this change was signalled in the approved Business Plan but Officers are now recommending that this is formalised so that a viable HRA can be sustained.

Recommendations:
That Council approve the 2021/22 review of the HRA Business Plan 2020-2025 and reflect the revised cost and income profiles in the budget proposals for 22/23 - 24/25.

Reasons for recommendation:
Approving this review of the HRA Business Plan 2020-2025 allows the Council to continue to try and deliver an ambitious programme of improvement within our housing stock, as well as maintain our commitment to housing development and securing building safety; ensuring as much as possible that the needs of our residents are met now and in the future.

1 Introduction and background

1.1 At the end of 2019, Selby District Council published its Housing Revenue Account Business Plan 2020-2025. Its intention was to provide tenants, the Council, and its Members with priorities and direction as to how it will manage Council owned social housing throughout the Selby district. It set out the scope for investment in both current and new homes, benefitting not only our tenants, but also the wider community and economy. Its objectives were, and remain:
Objective 1: To ensure good quality housing within the district which helps meet the needs of our local community.
Objective 2: To provide a first-rate housing management service which makes the best use of our existing stock.
Objective 3: To deliver a financially sustainable service which demonstrates value for money and ensures that investment is targeted to council priorities.

1.2 Central to the foundations of how we achieve our ambitions, the HRA Business Plan also included our financial forecast and key economic assumptions. This demonstrated that the Council could maintain its assets and invest in new provisions, but at the same time deliver a high level of service to current and future tenants and leaseholders.

1.3 Of course, it is difficult to review the HRA Business Plan without acknowledging the COVID-19 pandemic and its impact on our ways of working. There are also a myriad of new and emerging factors which may have a significant impact on the Business Plan, including both internal changes as well as additional requirements resulting from new Government legislation. Local Government Reform is also on the horizon, urging us to consider how we will come together with other stock holding local authorities in the North Yorkshire region. It is therefore important for us to reflect, plan for the future and consider where our priorities now lie.

2 Today's context

It is important that we identify both national and local policy implementation and/or updates that could affect Council operations and the Business Plan.

<u>National</u>

2.1 *Right to Buy receipts* - Under new rules, the timeframe local authorities have to spend new and existing Right to Buy receipts has been extended from 3 to 5 years. There is also an increase in the percentage cap of receipts local authorities can use on the construction of new homes, from 30% to 40%. An acquisitions cap has however been introduced to limit the number of homes that can be acquired, rather than built, above a threshold of 20 units (50% from April 2022 to 30% by April 2024). These measures are aimed at providing local authorities with the ability to undertake longer term planning and replace more homes lost via Right to Buy. Whilst SDC's receipts are relatively low, should Right to Buy sales result in additional capital receipts eligible for retention under the new agreement, these will then support additional homes delivery.

2.2 *Planning for the Future White Paper* - This sets out the Government's proposals for a 'once in a generation' reform of England's planning system. Amongst other things, the paper includes provision for the new affordable housing tenure of First Homes, defers Community Infrastructure Levy payments and raises the threshold at which developer contributions would be sought from 10 to 40/50 homes (for a time limited period), as well as extending 'permission in principle' to cover major development. The paper did however receive a mixed response, and Government has recently indicated that some of its more controversial reforms are likely to be reworked or removed entirely, with a focus instead on Brownfield development. It is however expected that First Homes will be mandatory (at a rate of 25%) on any new development with an Affordable Housing requirement as of 28 December 2021. Along with all other local authorities, we are unsure as to how First Homes will impact on Section 106 gains, and acknowledge that our Affordable Housing Delivery Strategy may need to be reviewed in future in light of this. It is however more likely that First Homes will reduce Shared Ownership stock (as an alternative route into Affordable Home Ownership) rather than have a significant impact on the number of Affordable Rented units acquired via Section 106 requirements.

2.3 *Social Housing White Paper* - This long-awaited paper reiterates the same themes as those proposed in the green paper; ultimately lobbying for the reform of social housing with the aim of rebalancing the relationship between residents and landlords. Its 'new charter' aims to ensure tenants feel safe in their homes, know how their landlords are performing against others, have their complaints dealt with appropriately, and are treated with respect. Its focus is on transparency, holding landlords to account and assisting tenants when they need it, especially for those who want to purchase a home. Again, the proposals put forward are significant and it is likely to take time for changes to filter through to local authorities for them to action.

2.4 *Building Safety Bill 2021:* Introduced in the House of Commons in July 2021 and expected to become law 9-12 months thereafter; this new bill aims to give residents and homeowners across England more rights, powers and protections - making homes across the country safer. It will provide a clear pathway on how residential buildings should be constructed, maintained and made safe and will set out the framework to improve compliance with the Building Safety Regulator, with tougher penalties for those who break the rules. The majority of the Act is aimed primarily at high-risk buildings (those at least 18 metres or seven storeys high, and containing at least two residential units). Consequently, whilst we are awaiting further legislative instruction in order to better understand the potential financial impact on the Council, early reading suggests that initially, there are no significant cost implications. The Secretary of State does however have general powers to amend this definition if deemed necessary; so it is recommended we keep abreast of the Bill, as it becomes law, in order to ensure continued and future compliancy.

2.5 *Fire Safety Act 2021:* Intended to complement the Building Safety Act, this amends the Regulatory Reform (Fire Safety) Order 2005 with the intention of improving fire safety in multi-occupancy domestic premises. Crucially, the external walls of a building and the fire doors to individual flats must now be assessed as part of the requirement for a fire risk assessment, which implements a greater level of inspection than currently occurs in relevant Council buildings. Notably, the Act applies to all multi-occupied residential buildings and is not dependent on the height of the building. Those in control of such premises become the 'Responsible Person' for fire safety, giving them a duty to undertake assessments and manage risk in relation to these areas. It should be noted that this Act will likely come into force fully over the course of 2021. Survey work is currently underway in order to evaluate what level of fire safety work is required in our communal areas, also given that an increase in spend had already been agreed as part of the Business Plan. However, costs are likely to be above those previously assumed given the new Act and its increased requirements.

2.6 *Electrical Safety Review of social housing:* The Electrical Safety Standards in the Private Rented Sector (England) Regulations 2020 came into force in June 2020 and impose duties on private landlords to conduct electrical safety checks every five years in their properties. However, there has been multiple calls for the same regulations to apply to all landlords, irrespective of tenure. A Government review on this issue is now taking place and if the regulations were to incorporate social housing, the Council would need to ensure they are fully complaint with these requirements, which would have a budgetary impact. Based on works done this year, in order to undertake a programme of inspections every year of circa 600 properties (totalling 3,000 over 5 year intervals) we would require approximately £177k per annum, based on current average costs going forward.

2.7 *Energy performance and decarbonisation:* The Government target remains for all social housing providers to attain a minimum rating of Energy Performance Certificate (EPC) C for rented properties by 2035, an important milestone towards making all homes 'net-zero-carbon' by 2050. The costs associated with this improvement work are likely to be high and may include the installation of new thermal insulation, the improvement of roofs, changes to heating systems, the installation of low energy lighting and any additional renewable power solutions. There will also be a proportion of properties where retrofitting will not be cost effective, and we may want to consider clearance in order to rebuild (discussed further at 4.3.3). Given increased costs, Ministers opened bidding for the £160m first wave of the Social Housing Decarbonisation Fund at the end of August 2021, set to total £3.8bn over the next 10 years. This allows authorities to bid for additional funding to improve the energy efficiency of any of their properties with an EPC rating of D or below. SDC are looking to submit a future bid.

<u>Local</u>

2.8 *SDC Housing Rents 2021/22:* Modelling within the HRA Business Plan set out ambitions to both improve current stock and build new affordable homes, with an assumed rent increases of CPI +1% (and an anticipated increase of 3% for 21/22). However, Government subsequently advised that Registered Providers were not able increase rents by more than CPI (at September of the previous year) +1% in any year. This led to estimated rental income being lower than in the proposed budget by £220k. In January 2021, Council consequently approved the maximum rent increase of 1.5% in line with Government policy, in order to maximise investment in our properties. The potential for high CPI inflation in the 12 months to September 2021 also represents a significant increase in providers' maximum permitted rent inflation for 2022/23. The latest Rent Report also submitted to Executive in January 2022 will propose a 3.1% plus 1% (4.1% in total) increase. This will see rents increase on average from £86.37 in 2021/22 to £89.99 per week (on a 48 week basis) representing an average increase of £3.62 across both Social and Affordable rented properties. Overall, this rental increase is estimated to grow HRA rent yield by approximately £347k in 2022/23 to reinvest in our housing stock.

2.9 *Allocation of SDC's Section 106 Affordable Housing Commuted Sums:* A revision of this allocation was required in April 2021, largely due to rising house prices impacting on the programme and increasing the risk of funding being unspent within the given timeframe. It was therefore agreed that a contribution of up to 80% of market value could be made utilised per property towards delivery of SDC's affordable homes programme (previously £30k per unit for empty homes and council house buybacks and £50k for new builds/acquisitions). Applying the revised subsidy levels of up to 80% of market value per unit, at least a further 54 affordable new build homes could be supported over the next 4 years. Whilst this will reduce the number of units that can be supported by the funding, it does mean that delivery can be maximised within the funding timeframe. Financial modelling within the Business Plan includes provision for 20 additional HRA properties per year in order to sustain the service, meaning that these properties alone would not suffice. In order to bridge this gap then, we must also look at other ways of delivering Affordable Housing, as detailed below.

2.10 *Affordable Housing Delivery Strategy 2021-2025:* This new strategy provides details of our affordable housing delivery ambitions and supports the Council Plan's priorities to: enable the delivery of increased housing supply, invest in improving the quality of current stock, and increase the number of affordable homes. It makes clear that delivery of these objectives will be through direct development, Section 106 on-site acquisition, the purchase of empty homes, and finally through buying back former Council properties that have been sold through the Right to Buy. It maintains that each scheme will be assessed for viability, but to support this, Section 106 Commuted Sums and Homes England Affordable Housing Grant Funding will be maximised where appropriate.

2.11 Ultimately, since the plan was conceived, financial pressures have undoubtedly increased within the Council's HRA, and after service running costs and sums set aside to repay self-financing debt, current forecasts show that there are insufficient funds available to support the investment needed in our stock; leading us to explore options to extend payback of debt as detailed in Section 4.

3. Aims and Objectives of the HRA Business Plan: 2021/22 Review

3.1 The HRA Business Plan should demonstrate that the Council can maintain its assets and invest in new provisions, and at the same time deliver a high level of service to current and future tenants and leaseholders. The plan illustrates:

- The Council's legal responsibilities as a social landlord.
- National, regional and local housing priorities.
- How the management of Selby's housing stock can support the delivery of wider strategic priorities.
- Local demand for affordable housing.
- Tenant and leaseholder needs and aspirations.
- Long term forecasts of income and spending and resources available to support investment plans.

3.2 As advised, three new objectives were agreed for the HRA Business Plan 2020-2025, which were:
Objective 1: To ensure good quality housing within the district which helps meet the needs of our local community; we will:

- Provide significant investment for current housing stock, not only meeting but surpassing the Decent Homes Standard.

> Update - Standards have since risen in the private sector; and although not yet mandatory for social housing, we would like to be working to best practice in the event this were to change i.e. electrical safety tests every 5 years. At present, we are updating our records via electrical surveys in a significant proportion of our properties (550 have already been completed this year) in order to ascertain the level of work required.

- Improve energy efficiency for our tenants, especially in our off-gas properties, reducing the likelihood of fuel poverty occurring.

> Update - Decarbonisation has come to the forefront of Government agenda, with an associated funding pot available to local authorities. Work has begun internally on modelling the costs of refurbishment and additional works to ensure that the Council is doing its part to meet the Government's target of being 'net-zero-carbon' by 2050.

- Ensure the Council has accurate and increased stock records to inform both responsive repairs and planned investment programmes.
- Acknowledge and try to meet the needs of our rural residents and those who may require specialist and/or supported accommodation.

3.3 **Objective 2:** To provide a first rate housing management service which makes the best use of our existing stock; we will:

- Build on the good work already completed in Tenant Participation and encourage an increased relationship with our tenants and leaseholders.
- Improve our responsive repair service by utilising new IT provisions, gathering feedback and using it to improve and shape service delivery.
- Increase fire safety in communal areas to ensure they are both secure and attractive places for residents to experience.

> Update - In light of the Building Safety Bill 2021, this work is likely to be extended in order to ensure that the Council is entirely compliant with any new legislation regarding the safety of our tenants and properties.

- Meet local need by prioritising those with local connection for new build affordable housing, and reduce empty homes within the community to increase affordable accommodation in local areas.

3.4 **Objective 3:** Deliver a financially sustainable service which demonstrates value for money and ensures that investment is targeted to council priorities; we will:

- Work with the Housing Trust to deliver increased affordable housing throughout the district via our three delivery pillars.

> Update - Given the work required on LGR, it was proposed that affordable homes delivery is focussed entirely on the HRA. This means removing the planned capital expenditure on Selby and District Housing Trust Loans. This has significantly impacted the sustainability of the Trust and they are exploring their options (including wind-up). However, as per the Council's new Affordable Housing Delivery Strategy, we will continue to ensure the supply of affordable homes in the district via direct development, Section 106 on-site acquisition, the purchase of empty homes and buying back former Council properties sold through the Right to Buy.

- Commit to one-for-one replacement of properties lost via Right to Buy and work to replace those already lost but not yet replaced.

> Update - At the end of March 2019, the Council owned and managed 3036 properties. This reduced to 3026 in March 2020 and 3017 in 2021. Property loss was due entirely to Right to Buy sales. However, numbers would have been lower still had it not been for the 'buy back' of former Council properties increasing Council stock (7 in total). On average, over the last 5 years, the Council has lost 18 properties a year to RtB and 'Mid-case' modelling presumes a loss of 20 properties a year. At the same time, we also assume a replacement rate of 20 properties a year in order to meet 1 for 1 replacements. We do however acknowledge that a deficit does remain in regards to properties already lost to RtB and not replaced in previous years.

- Ensure that housing need takes precedence when deciding the location, property and tenure type of new housing schemes.
- Reduce void times in our properties to accelerate access to affordable housing and increase rental income to the HRA.

4. Financing the plan

4.1 The aim of the HRA Business Plan is to provide the financial environment to support our landlord responsibilities over the medium and longer term, combined with strategic objectives for our housing service. Of course, in light of the changes experienced since the plan was published, it is important that we review the financial modelling. We know that we are currently operating in difficult times and face a broad range of competing pressures in setting our strategic direction and in utilising our limited financial capacity. We must undertake essential investment to respond to changing building safety and energy efficiency standards, as well as maintaining the quality of our existing housing stock. At the same time, we are committed to developing new homes to serve future tenants, aware of the many households currently sat on our housing waiting list.

4.2 The HRA is a 'ring-fenced' account which means that all the costs associated with maintaining our homes, financing improvement works, servicing debt and running the service, are met from the rental and other associated income generated from the houses and garages we let. The balance between repaying our debts, versus maintaining and/or extending our housing stock, remains an on-going feature of the plan and requires careful consideration. Consequently, it was agreed that the plan be regularly reviewed and in appropriate circumstances, utilise ‘flexible levers’ by either accelerating the programme or slowing down debt repayment in whichever direction is required.

4.3 Appendix A details the updated modelling for the HRA Business Plan, which includes some key changes:

4.3.1 Council rents have been rebased given that figures were reduced from those forecasted in the original Business Plan, resulting from Government direction on inflation and a struggle to provide 1 for 1 replacement of homes lost via Right to Buy.

4.3.2 Garage rents have not been rebased at present; however, this may need to be considered at next review and the rent budget updated to reflect a more realistic figure. Many of our garages are in a state of disrepair and it may not be cost effective to refurbish them given the relatively small income they generate. However, in order to establish a true picture of current condition and rental yield, a review of garages is expected to take place in 2022 and a subsequent options appraisal produced in order to ascertain best value for money.

4.3.3 The percentage of void properties has been increased from 2 to 2.5%. This accounts for removing a small number of properties from housing management that require such significant work that again, they are not cost effective to refurbish. This will reduce overall stock numbers by approximately 75 properties (opposed to 60) and subsequently reduces HRA rental income by £65k in 2022/23. However, the HRA remains sustained via the Housing Development Programme and rental income yielded from these additional properties. Instead, these ‘end of life’ properties are more suitable for regeneration, which will require a separate report for Executive Members to consider. This work not only has the potential to improve on the quality of our properties, but in some circumstances may allow us to increase the number of units being rebuilt, providing further sustenance to the HRA. Whilst this work is in early stages, it is important that we make reference to it now and include within the financial modelling.

4.3.4 The Capital Improvement Programme (CIP) has also slipped since the Business Plan was approved, mainly due to an inability to provide contractors with continuity of work. To combat this, our contractors have been tasked with completing stock condition surveys, designed to provide early insight into next year’s programme. This will help to bring the programme back on course once budgets are approved in February 2022. As part of the Business Plan, we agreed to undertake substantial investment in our existing stock over the next 15 years. As a long-term asset, we must ensure an effective system for repairs, maintenance and improvement is in place. Robust data as to the quality of our stock is integral to this process, as well as providing much needed information for a number of current focuses - from the review of the Decent Homes Standard, the government’s decarbonisation agenda and more locally with LGR on the horizon, resulting in the merger of multiple stock holding authorities.

4.3.5 Although the budget remains unchanged, we are aware that additional fire and building safety work may be required in our properties in order to maximise levels of compliancy. This is likely to result in new and additional work which the financial modelling does not account for. However, the CIP was also modelled with a ‘no refusals’ assumption, whilst the current rate of refusals stands at approximately 20%. This does then provide scope to filter this underspend into additional compliancy measures. Work is therefore underway to ascertain the cost of these new safety measures in order to inform the Capital Improvement Programme’s workstream, without requiring any additional spending bids.

4.3.6 However, we are aware that with increased inflation (of which the modelling includes 4% at 2022/23, 2.6% at 2023/24, 2.1% at 2024/25 and then returning to the flat rate of 2%) on cost of labour and materials, current Council contracts are having to be renegotiated and costs increased. Some changes to migrant labour availability resulting from Brexit were expected. However, labour shortages have been compounded by the various COVID-19 lockdowns and uncertainty regarding travel arrangements. For contractors, this means that labour is either not available, or is at an increased cost. This is made worse due to increased pressures on material availability (a direct result of the pandemic) and a significant increase in energy prices. Initial estimates suggest additional cost pressure of £190k on the CIP.

4.3.7 The modelling also provides rough estimates as to the amount of new housing we expect to deliver over the coming years, sustaining the HRA via 1 for 1 replacement of properties lost through Right to Buy. This could be through direct development, Section 106 on-site acquisition, the purchase of empty homes and buying back former Council properties sold through the Right to Buy. Presently, we also benefit from additional Section 106 subsidy to supplement the cost of housing development; primarily with a focus on acquisitions until March 2023 to ensure that subsidies are spent within their given timeframes, but also through direct development should a realistic and affordable scheme come forward. It is important to note however that, as per Government guidance, from 28 December 2021 where cash contributions for affordable housing are secured in lieu of on-site units, a minimum of 25% of these commuted sum contributions must be used to secure First Homes, the Government’s new preferred affordable housing tenure. We are not assuming any further receipts at this point, but any new funds would likely fall to the new authority (post-LGR) to allocate and spend accordingly.

4.4 Loans - HRA self-financing borrowing is made up of historic debt as well as £50.2m new borrowing taken out in 2012. All borrowing is via fixed-rate ‘interest only’ loans and in accordance with the Council’s Treasury Management Strategy. In the original Business Plan, it was agreed the Council would maintain the proposal that all loans be repaid over a 30 year period if financially viable to do so (as per the HRA Business Plan 2012-2017). This now forms part of our worst-case. However, the bulk of our remaining loans are not repayable until a later date, as follows:

Loan Value (£000)	Loan Rate (%)	Remaining Loan Term (as of 1st April 2021)	Maturity Date
16,793	3.50	21	28/03/2042
16,720	3.52	31	28/03/2052
1,000	8.375	35	31/03/2056
16,720	3.48	41	28/03/2062

As of 2021/22, the Council has almost £5.6m set aside in order to repay this debt (last year repaying our first loan of £6.5m). In order to maintain our commitment to repay over 30 years, from 2022/23 the Council must set aside £2.28m every year until 2041/42 in order to reach its target. However, given the difficulties facing the HRA over the coming years, as reiterated throughout this report, we are recommending that repayment be reprofiled and instead spread over the remainder of the loan terms. This would mean taking the balance outstanding and spreading it out until the last loan is due in 2061/62, ensuring of course that enough money is available as each repayment interval in order to service our debt. This would see the amount we need to set aside each year reduce from £2.28m to £1.14m. This loan profile is detailed within the mid-case financial modelling. This would provide us with an additional £1.69m each year towards the other commitments within the original HRA Business Plan, namely our commitment to a new and improved CIP and 1 for 1 property replacement; also taking into account the additional costs of materials and labour this is likely to affect both of these projects going forward. Our best case assumes back-loading loan repayment provisions which minimises cost pressures in the earlier years of the plan but carries greater risk.

4.5 Ultimately, the Council does face significant challenges in maintaining its HRA commitments. However, by reprofiling debt repayment and through maintaining a 1 for 1 Housing Development Programme, the financial forecast included within this review is able to show that there remains sufficient resources over the next 30 years of the plan to:

- Maintain a viable housing management service.
- Continue with the new CIP to maintain as well as improve on the Decent Homes Standard in our properties.
- Carry out necessary planned repairs to our housing stock.
- Invest in new properties as part of a Housing Development Plan (per individual finance arrangements, including accessing Homes England grant funding and Section 106 commuted sums).

5. <u>Consultation</u>

5.1 The HRA Business Plan underwent significant consultation prior to being published, examined by both the Council's Scrutiny Panel and Policy Review Committee. For tenants, there was an online survey made available on the Council's website, complimented by drop-in sessions held at local Community Centres based around the district, and a focus group held at the Council's Civic Centre in Selby.

5.2 As this is a review of the original plan, maintaining its objectives and general direction, it was decided that this Review Report for 2021/22 would instead be made available only to the Council's Tenant Scrutiny Panel for feedback purposes, acting on behalf of our tenant cohort. The review and its content was supported and the panel are now working with the team to create a tenant friendly review report, soon to be published.

6. Implications

6.1 Legal Implications

Section 74 of the Local Government and Housing Act 1989 requires the local housing authority to keep a separate Housing Revenue Account and Section 76 of the same Act provides that they must prevent a debit balance in the HRA.

6.2 Financial Implications

Appendix A presents three scenarios - a best, worst and mid-case. The mid-case is our 'most likely' scenario and incorporates the issues set out in this report, with the best and worst cases demonstrating the impacts of variations in assumptions. Key assumptions included in the mid-case are:

- 2021/22 rents will increase in line with government policy based on CPI +1% (4.1% for 21/22).
- Non-dwelling income increases in line with the Council's policy for fees and charges (4%).
- Void rate set at 2.5% to reflect 'out of management' properties.
- Bad debt provision: 40% at 1% and 60% at 3% to reflect potential impact of Universal Credit.
- Day to day maintenance costs increase in-line with inflation and do not vary with stock losses through RtB or new-build through the HDP.
- General inflation based on latest CPI forecasts (4% for 22/23, 2.6% for 23/24 and 2.1% for 24/25, then back to 2% from thereon).
- Surplus funds generated through efficiencies or additional income is allocated to the Major Repairs Reserve to be available for use to invest and maintain the housing stock.
- Based on current trends, 20 Right to Buy sales are assumed each year.
- Capital Programme includes inflation based on CPI forecasts.

As highlighted in this report, the HRA is experiencing challenges as a result of previous rent reductions, COVID-19 wider economic factors and delays to replacement of stock lost through Right to Buy. Demand for stock improvement work is currently in excess of the resources available through the Major Repairs Reserve and therefore funds earmarked for debt repayment will need to be diverted to the Capital Improvement Programme. The necessary balance between investment in the stock and repayment of debt is highlighted in the approved 30-year Business Plan but growing pressures mean that a reprofiling of debt repayment is now necessary.

Modest savings of circa £200k are planned for the HRA following implementation of Phase 2 of the Housing and Asset Management System and opportunities for efficiency will continue to be sought but the longer-term sustainability of the HRA is reliant upon the replacement of homes sold through right-to-buy and the rental income they deliver.

Notably, the draft HRA Budget was presented to the Executive on 2 December 2021 outlining the revenue budget, capital programme and indicative budgets for 2023/24 and 2024/25. This iteration of the financial modelling (Appendix A) updates some key assumptions presented as part of the draft budget. Whilst the key service budgets are in-line with those proposed as part of the draft budget, the differences are as follows:

- HRA debt (repayment of interest) - the previous Business Plan made assumptions regarding the financing of borrowing to build new houses and this had been taken forward as part of the draft budget. The shorter term focus is around the acquisition of property to increase stock numbers (further information can be found in **paragraph 2.10**). The financing of these homes will be through the use of Section 106 affordable housing receipts to a maximum of 80% market value, and the remainder funded either via grant (through agreements with Homes England) or capital receipts. This eliminates the need for PWLB borrowing and generates savings of £222k.
- Voluntary MRP - the approved plan works on the basis that funds will be set aside annually to repay PWLB debt after 30 years even though some of the borrowing was taken out over 50 years. **Paragraph 4.4** provides more information. This solution led to longer term savings through interest savings. The revised mid-case plan reprofiles MRP over the remaining term so that there are sufficient funds available to repay debt but won't allow early repayment. It frees up funds in the shorter term where the plan demonstrates greater pressures. This action will save £1.14m voluntary MRP (and £0.328m from not taking additional borrowing for Housing Development projects) but leads to interest payable over the longer term.

These changes free up £1.690m, transferable to the Major Repairs Reserve to invest in capital enhancements to dwellings. As alluded to in **paragraph 4.3.6,** the capital programme profile is based on that approved in the previous plan and has been updated to reflect higher than previously forecasted inflation rates. Those assumptions had a flat 2% built into the model. This has been amended to reflect those used in the revenue budget for the next 3 years at 4%, 2.6% and 2.1% and then drops back to the longer term assumption of 2%. This has a subsequent impact on the programme of £117k for 22/23, £156k for 23/24 and £169k for 24/25.

In addition, £190k has been built into the CIP annually to support additional contract costs for works which include rewiring houses, installing kitchens and bathrooms, and health and safety work around Carbon Monoxide.

6.3 Policy and Risk Implications

Financial elements within the Business Plan do carry various levels of risk, detailed under its ‘Risk Register.’ However, new and increased risks must also be acknowledged in light of the past year:

Risk	Detail
Provision of bad debt	Many of the aids that Government put in place during the pandemic to ease financial hardship for our tenants are now coming to an end (particularly the Universal Credit uplift and furlough scheme). There are concerns this will increase the potential for further pressure on arrears. Whilst we do include provision for bad debt within the modelling, this figure will potentially need increasing if debt rises considerably. Reduced benefit income, the continued benefit cap freeze, the potential for higher tenant unemployment as government support for the economy winds down, and well as increased energy costs, may all increase financial pressure on tenants over the coming months. As rent collection forms the overwhelming majority of income received for the HRA, it is vital that rent is both collected at maximum capacity, and subsequently used effectively.
Socio-economic climate	Economic recovery remains fragile since leaving the European Single Market and Customs Union, as well as the ongoing pandemic, with significant disruption to supply chains and the labour market resulting in high-cost inflation and ongoing shortages of materials and skills. Weaker operating margins and increased spending on existing stock due to remedial safety works, catch up on repairs, and energy efficiency improvements means that providers must maintain a close watch on these issues. The risk here is that the Council fails to prepare appropriately for these issues, which will impact on the future delivery of Council services. We must therefore try and plan ahead for these concerns and consider how an increase in costs would affect the Capital Programme. That being said, LGR does provide scope to merge services and pool resources, helping to reduce overall spend.
Decarbonisation	The Government remain committed to making all homes ‘net-zero-carbon’ by 2050. The costs associated with retrofitting our properties are likely to be high, with current predictions standing at approximately £20k extra per property. The biggest concerns relating to decarbonisation are financial and skill capacity, limits on existing stock (again it is predicted that approximately 20% of current national stock will not be cost effective to upgrade), and a general lack of clarity over what is required.

	For many social housing providers, the only way this work can be achieved is if the majority is grant funded. Ministers consequently opened bidding for the £160m first wave of the Social Housing Decarbonisation Fund at the end of August 2021. Unfortunately, funding remains a competitive short-term solution, with turn-around times that prove difficult to achieve. The risk here is that, because of this, the Council do not maximise on grant funding schemes and properties become sub-standard. Currently then, Officers are looking to the next round of funding and collecting together key information needed to submit a formal bid. The Council also now benefits from additional resource in the form of a Low Carbon Project Officer who can offer specialist advise and expertise.
Additional safety compliance	As advised, additional work may be required in both our properties and communal areas as a result of the Building Safety Bill, Fire Safety Act 2021 and the Electrical Safety Standards. Much of this work is unaccounted for in the financial modelling, but it is expected that the reallocation of existing CIP funds will suffice. However, if costs were above this amount, this could prolong the time it takes to fulfil the CIP. Additionally, where grant funding is available, Officers will consider any and all suitable funding streams.

It should be noted that even with the reprofiling of the self-financing debt there will be insufficient funds within the Major Repairs Reserve to cover the cost for the works needed to our stock. Accordingly the modelling shows that monies previously set aside to repay debt will also need to be released.

6.4 Corporate Plan Implications

Implementation of the HRA Business Plan 2020-2025 meets the Corporate Plan's aim to enable the delivery of increased housing supply; increase the number of affordable homes; and invest in improving the quality of Selby District Council housing stock.

6.5 Resource Implications

The HRA Business Plan will link directly to the Councils MTFS and incorporates the Council's Capital Investment Programme, as approved by the Executive.

6.6 Equalities Impact Assessment

The HRA Business Plan is intended to be an overarching strategic document setting out the future of the Council's housing provision, and therefore not subject to an Equality Impact Assessment. However, any new policy or procedure created as a result of its implementation will be subject to such an assessment and will be inclusive of the relevant protected characteristics of age; disability; gender reassignment: pregnancy and maternity; race; religion or belief; sex and sexual orientation.

7. Conclusion

Following the 2021/22 review and in light of what we have experienced over the last 18 months, it was clear that in order to maintain our commitments within the original Business Plan, some changes needed to be made. The HRA's future viability is reliant on achieving a certain level of rental income, based on having adequate stock in circulation and on a successful 1 for 1 replacement scheme. However, we have struggled to achieve in both of these areas, impacted by internal struggles as well as by large scale socio-economic shifts. Therefore, in order to meet our stated aims and provide a sustainable financial model, we have:

- Accounted for more void properties in the financial modelling and plan separate project work in order to combat these 'end of life' properties, potentially increasing stock numbers if appropriate.
- Stepped up stock condition survey work to better understand our properties needs and better plan the CIP going forward.
- Continued to pay close attention to Government direction in order to ensure high levels of compliancy with the financially capability to respond to any changes.
- Reprofiled the Housing Development Plan to ensure we spend our remaining Section 106 subsidy, focusing on acquisitions in the first instance and on direct development if financially viable.
- Reprofiled our debt position in order to both service our debt as well as provide adequate financial capacity within the HRA.

Subject to these changes, the HRA Business Plan continues to demonstrate that Selby District Council can maintain its assets and invest in new provisions, and at the same time deliver a high level of service to current and future tenants. It continues to provide a 30 year financial forecast which includes key assumptions to ensure a sustainable financial model; including the new Capital Programme which will drive increased standards, enable better planning and achieve greater efficiencies. Approval of the review and all that is entails with therefore allow the Council to continue to pursue its new objectives and make positive changes to its housing stock and service, better meeting the needs of our current and future tenants.

8. Background Documents

Selby District Council's Housing Revenue Account Business Plan 2020-2025 (including Appendices A, B, D)
HRA Business Plan 2020-2025 Appendix C

9. Appendices

Appendix A – Financial modelling

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