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To:	Council
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Ward(s) Affected:	All Wards
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APPENDICES 1 AND 2 TO THIS REPORT CONTAIN EXEMPT INFORMATION UNDER PARAGRAPH 3 OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972 AS AMENDED AND ARE NOT FOR PUBLICATION

Title: Housing Revenue Account – Additional Funding Requirements

Summary:

This report provides an update on the financial pressures faced by the Council's Housing Revenue Account as a result of increasing numbers of void properties being returned which require substantial works to bring them back in to use, coupled with unprecedented post Covid global economic and geo-political instability resulting in building material shortages and double-digit price increases.

The report includes detailed background information and context to foster greater understanding of the challenges facing the Housing Revenue Account and provides explanation of mitigation measures implemented to lessen financial impact.

Finally, the report provides clarity as to actions taken to improve the data held by the Council to enable improved management of the portfolio moving forwards and presents options for managing the current financial pressures.

Recommendation:

That Council approve the allocation of £2.047m additional funds to the Housing Revenue Account using affordable housing Section 106 Commuted Sums previously earmarked for market housing acquisition to support essential investment in the Authority's social housing portfolio as outlined in option two below.

Reasons for recommendation:

To enable additional funds to be made available in the current financial year to support the continued delivery of the capital voids programme across the district.

1. Introduction

1.1. Housing Revenue Account Business Plan

1.1.1. On 17th December 2019, the Council approved the Housing Revenue Account (HRA) Business Plan 2020 – 2025[1]. The Business Plan is subject to annual review and updated assumptions (financial and non-financial) are included and also used to inform the budget. The latest refresh of the plan was approved by Executive on 6th January 2022[2]; along with the budget for 22/23 in February 2022.

1.1.2. The aim of the HRA Business Plan is to provide the financial environment to support the Council's landlord responsibilities over the medium and longer term, combined with strategic objectives for our housing service.

1.1.3. 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.

1.1.4. The Business Plan outlines the Council's proposals for maintaining its assets and investing in new provisions, whilst delivering a high level of service to current and future tenants and leaseholders. The proposals outlined therein coalesce around three key objectives:

1.1.4.1. Objective 1:

To ensure good quality housing within the district which helps meet the needs of our local community; the Council will:

- Provide significant investment for current housing stock, not only meeting but surpassing the Decent Homes Standard.
- Improve energy efficiency for our tenants, especially in our off gas properties, reducing the likelihood of fuel poverty occurring.
- 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.

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[1] Housing Revenue Account Business Plan report approved by Executive on 5th December 2019.
[2] Housing Revenue Account Business Plan: review 2021/22 report approved by Executive on 6th January 2022

1.1.4.2. Objective 2:

To provide a first-rate housing management service which makes the best use of our existing stock; the Council 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.

- 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.

1.1.4.3. Objective 3:

Deliver a financially sustainable service which demonstrates value for money and ensures that investment is targeted to council priorities; the Council will:

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

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

- 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.

1.1.4.4. Consultation with tenants and stakeholders during development of the plan identified a number of key priorities which were subsequently incorporated into the Business Plan, including:

- Unanimous support for the decision to increase standards within our stock beyond the requirements of Decent Homes.

- 79% of respondents wanted the Council to focus of improvement measures to make their homes more energy efficient.

- An increased focus on estate management and security, including improved fencing, better doors and locks and external lighting.

- Reducing the number of empty properties and void periods to maximise housing availability, but ensuring they are fit for purpose prior to being re-let.

1.1.5. Following the introduction of the Decent Homes Standard, a considerable amount of work was completed pre-2010 to ensure these standards were achieved across the Council's stock. Notwithstanding however, 55.2% of Selby's properties received no work as part of that programme of investment and of the 44.8% of properties where work was undertaken, in accordance with the decency standard this was limited to either a kitchen or a bathroom, not both.

1.1.6. As highlighted previously, the Business Plan outlines proposals to move the Council's housing portfolio beyond Decent Homes Standards to what was termed Decent Homes Plus.

1.1.7. Unanimously supported by consultees, through introduction of Decent Homes Plus, the Council committed to improving standards further, ensuring key property components, such as windows and doors, are replaced just before their expiration date (known as their life cycle) and that tenants are offered replacement of both kitchens and bathrooms.

1.1.8. In developing our life cycle replacement methodology and subsequent financial modelling it was important to understand the current position of our portfolio, focussing on key building elements (kitchens, bathrooms etc.,) and utilising the data available within the Council's existing systems to build the future programme.

1.1.9. Analysis of the data available in 2018/19 & 2022/23 can be found at Appendix 1. In 2018/19 circa £51.8m of replacement works were outstanding at the time the plan was produced; and despite the investment made in the interim, further analysis utilising updated average pricing data indicates this has risen to £85.5m as a result of price increases, slippage in the programme and additional works including pointing identified.

1.1.10. Recognising the limitations of the existing management information however, and the need to provide proper assurance to the new unitary authority around 'safe and legal' compliance of the portfolio, a full stock condition survey was commissioned in April 2022.

1.1.11. Although it is recognised a full stock condition survey is both expensive and resource intensive, the disparate nature of the Council's stock and the potential for significant variation between individual properties fully justifies the adopted approach.

1.1.12. The recently completed internal audit of the Council's planned repairs and asset management approach which observes limited assurance due to the lack of consistent and comprehensive management information regarding the status of the social housing portfolio provides validation of the approach adopted.

1.1.13. Data from the stock conditions surveys is now being received although the full portfolio position will not become evident until after all the surveys have been analysed post April 2023, whereupon a review of the life cycle replacement modelling will be undertaken.

1.1.14. The Council's continued investment in its new housing management software, once fully implemented, will provide a robust management tool to oversee the property portfolio, delivering a comprehensive picture of the Council's stock and enabling improved development of future investment programmes.

1.1.15. In tandem with the development of the draft Business Plan, and in order to more accurately capture the levels of work required in the void properties being received, in April 2019 the Council changed how it recorded and reported on performance in respect of its void properties, moving from a single all-encompassing target to three separate categories.

1.1.16. Whilst it is acknowledged that in so doing, the Council increased the time available to undertake the necessary repairs in order to bring properties back in to use in two of the three new categories, the approach provided greater clarity as to actual performance.

1.1.17. Under the previous single measure arrangement, void properties requiring extensive works were classified as 'out of management' and thus 'hidden' from the performance measures until re-let. The revised methodology however ensures full visibility of all void properties as they progress through the repair and re-let process.

1.1.18. Implementation of the three void categories has brought forward significant investment in our void properties and indeed 2022/23 has seen the introduction of a capital voids programme within the HRA capital investment budget.

1.1.19. The three categories of void properties are as follows:

1.1.19.1. Standard: target 26 working days

1.1.19.1.1. A standard void is categorised as one which requires minor repairs, compliance checks and cleaning only.

1.1.19.2. Major: target 45 working days

1.1.19.2.1. A major void is categorised as one which, in addition to the above works, requires one of the major elements in the property e.g., kitchen, bathroom etc., replacing.

1.1.19.3. Refurbishment: target 180 days

1.1.19.3.1. A refurbishment void is categorised as one which requires two or more of the major elements in the property replacing, and more often than not, requires significant levels of investment to bring it back to acceptable standards.

1.1.20. Since the introduction of the new performance measures, the Council has completed works in a total of 719 void properties (to 19th December 2022) as follows:

Financial year	Standard	Major	Refurbishment	Uncategorised	Total
2019/2020	142	61	55		258
2020/2021	66	27	66		159
2021/2022	66	46	70		182
2022/2023 YTD	53	26	41		120
2022/2023 Forecast*	76	26	65	19	186

*Forecast based upon known and assumed voids through to the end of the year and therefore subject to variation

1.1.21. It is worth highlighting the total numbers of voids received in 2020/2021 and 2021/2022 were lower than average due to the restrictions imposed on the housing market during the Covid lockdown periods. Whilst in totality void numbers are below 19/20 levels, it is evident from the figures that the overall trend is of an increasing number of properties being returned to us which fall into the refurbishment category.

2. Housing Revenue Account

2.1. Current position

2.1.1. Although the Business Plan was adopted in late 2019, with the first tranche of additional investment coming in 2020/21 financial year, the various Covid lockdowns and restricted working arrangements, coupled with requirements to procure additional contractor support for key elements of programme delivery, resulted in slightly reduced spend in both 20/21 and 21/22 financial years; consequently 2022/23 has been the first full year where the Council has had the internal staff and external contractor resources to support delivery.

2.1.2. Global economic and geo-political instability post Covid have however contributed to the most sustained period of inflationary pressure in the UK economy for forty years, with many key building materials experiencing manufacturing shortages and double-digit price increases; and whilst the Council has been cushioned from some of the price pressures through its contractual arrangements, works tendered during this period have been significantly higher than previously anticipated thus leading to budgetary pressures.

2.1.3. Recognising the potential impact of continued upward price pressures on budget availability, proactive mitigation measures have been implemented to manage this year's capital programme in an attempt to assuage impact.

2.1.4. For example, save for properties issued as part of the 2021/22 kitchen and bathroom programme which remained outstanding at the end of the financial year or which have been completed at void stage this financial year, no substantive programme for such works in 2022/23 has been issued.

2.1.5. In a similar vein, officers have refrained from re-tendering programmes for replacement of windows and doors or property re-pointing, completing properties on an ad-hoc basis at void stage where necessary via provisions with the capital voids contracts.

2.1.6. In respect of the capital voids programme, properties have now been reassessed and the specification reduced to compliance with statutory requirements under the Housing Health and Safety Rating System (HHSRS), Decent Homes etc., rather than the Decent Homes Plus standard outlined within the HRA Business Plan outlined earlier.

2.1.7. Although the approaches outlined have helped to mitigate the impact on the Council's financial position, regrettably the continued elevated levels of refurbishment voids have now resulted in a requirement to temporarily pause all new works whilst additional funding is secured.

2.1.8. For the purposes of clarity however, it is important to stress that where work is in progress or essential these works are continuing. The temporary pause also does not affect the Council's day to day repair operations or adherence to our statutory Landlord repairing obligations.

2.2. Additional funding requirement – capital voids programme

2.2.1. In considering the level of additional funding required to continue delivering the Council's capital voids programme and other HRA capital works through to 31st March 2023, it is essential to provide additional context.

2.2.2. As outlined previously, thus far 41 void properties have been refurbished this financial year with a further 24 currently outsourced to our contractor partners, albeit works to 14 of these properties are temporarily paused pending approval of additional funding.

2.2.3. The average cost of the works required in each of the 65 void properties outlined above is £41,704 per property. This figure includes replacement of key elements within each property such as kitchens, bathrooms, windows and doors in order to achieve the Decent Homes Plus standard outlined in the HRA Business Plan; but also goes further, covering additional items required under HHSRS such as remediation of issues with potential to create category one hazards such as bridging of the damp proof membrane resulting in damp and mould.

2.2.4. At the present time, the Council has 100 void properties in its portfolio (approximately 3.33% of the total stock) of which 25 are scheduled to be handed back, ready to be re-let on or before 3rd February 2023; and a further 23 are either standard voids or outsourced to contractor partners and currently in progress.

2.2.5. As a result of the current financial pressures however, 14 voids issued to our contractor partners are on hold pending additional funding and a further 38 void properties remain unallocated with no works being completed.

2.2.6. Works to re-assess the 38 void properties where no works are currently underway is ongoing and initial assessment indicates average costs could be reduced to circa £26,000 per property by reducing the specification to achieve Decent Homes Standards and remedying any potential category one hazards as defined under HHSRS.

2.2.7. Taking all of the above into account, it is estimated an additional £2.047m is required. A detailed breakdown of the figure is included at Appendix 2, option2.

3. Alternative options considered

3.1. In making the recommendation to Council, consideration was given to three options as follows:

3.1.1. Option 1: Do nothing

3.1.1.1. The Council could choose not to make additional funds available to support the works required. This option will result in cessation of all works associated with the capital voids occasioning a significant increase in the number of void properties within the Council's portfolio.

3.1.1.2. The cessation of works would result in lost rental income and increased costs on the Council's revenue budget through payment of Council Tax and utility provider standing charges.

3.1.1.3. Such an approach would also likely lead to significant reputational damage for the Council given the well-documented demand for affordable housing across the district.

3.1.2. Option 2: Support the capital voids programme to a reduced the specification

3.1.2.1. At an estimated cost of £2.047m, the Council could choose to approve additional funds to support continued delivery of the capital voids programme albeit with the specification of works undertaken therein reduced to achieve Decent Homes standards and compliance with requirements under HHSRS.

3.1.2.2. This option will ensure the work continues to bring the Council's empty properties back into use as quickly as possible; reducing the revenue burden on the Council by ensuring rental income is maintained and liabilities for Council Tax and utility providers standing charges reduced.

3.1.2.3. Reducing the specification of the capital voids programme will however result in significant re-programming of elemental replacement works to future years.

3.1.3. Option 3: Support the capital voids programme in full

3.1.3.1. At an estimated cost of £2.345m the Council could choose to approve additional funds to support the capital voids programme in full, however based on the costs and numbers of voids experienced to date, this option is financially unsustainable moving forwards.

3.1.4. Option 2 is recommended as this enables works to continue and properties to be relet pending a full review of on-going works to the stock as a whole and impacts on the new North Yorkshire Council's HRA business plan.

4. Implications

4.1. Legal implications

4.1.1. There are a number of potential legal implications associated with adoption each of the considered options and indeed the proposed funding mechanism associated with this reports' recommendation as set out below.

4.1.2. Recommendation to utilise S106 commuted sums

4.1.2.1. The S106 commuted sum payments held by the Council must be used for the 'provision of affordable housing'. Following detailed consideration, the Solicitor to the Council is satisfied that utilising such funds for the purpose of refurbishing the Council's void properties satisfies this requirement given it will provide affordable housing that would otherwise be lost.

4.1.3. Option 1: do nothing

4.1.3.1. Cessation of all works under the capital voids programme would likely lead to significant reputational damage for the Council given the well-documented demand for affordable housing across the district.

4.1.4. Option 2: support the capital voids programme but reduce the specification to achieve Decent Homes standards and compliance with requirements under HHSRS.

4.1.4.1. There are no legal implications associated with this option provided the minimum requirements outlined within relevant legislation are achieved and maintained.

4.1.5. Option 3: Support the capital voids programme in full.

4.1.5.1. There are no legal implications associated with this option.

4.2. Financial implications

4.2.1. As set out in paragraph 3.1, £2.047m is needed to cover the forecasted additional costs of the recommended option 2 which allow for completion of voids at a reduced specification and provision for the completion of any emergency work including roofing, damp works and adaptions.

4.2.2. Based on our current spending plans £5.06m of this is earmarked for the purchase of 22 units at Staynor Hall and 34 units from Selby and District Housing Trust on their wind up. The remaining £2.68m is tentatively allocated to additional market purchases but could be allocated to major refurbishment works on voids within the Council's own stock. Reallocation of the £2.047m needed to cover the additional void costs in 22/23 would mean on average circa 11 less affordable homes would be acquired resulting in approximately £40k net reduction per annum in the HRA.

4.3. Policy and risk implications

4.3.1. As highlighted previously, the 2019 HRA Business Plan approved by Executive on 5th December 2019 incorporates a commitment to increase standards within our social housing portfolio beyond the requirements of Decent Homes to one of Decent Homes Plus; ensuring key property components are replaced on a life cycle basis and that tenants are offered replacement of both kitchens and bathrooms.

4.3.2. The proposed changes outlined in this report will significantly impact the Council's previous commitment to its tenants in this regard moving forwards and will necessitate re-profiling of the future capital investment programme.

4.3.3. The challenges outlined in this report, coupled with the unprecedented financial headwinds of the past two years however could not have been reasonably predicted and in recommending option two for approval, the Council is seeking to balance its statutory obligations as a landlord, with the prudent financial management required to retain a sustainable HRA.

4.4. Corporate plan implications

4.4.1. The Council Plan 2020 – 2030 reiterates the Council's commitment to ensuring the district continues to provide a great place to live and outlines one of the ways this will be delivered is by improving the quality of its social housing stock.

4.5. Resource implications

4.5.1. The Council's capital voids programme is primarily delivered via external contractor partners and as such there is no direct impact pertaining to continued delivery of the programme.

4.6. Other implications

4.6.1. There are no other implications associated with this decision which are not covered elsewhere in the report.

4.7. Equalities Impact Assessment

4.7.1. Not applicable to this report.

5. Conclusion

5.1. The Council's HRA is facing incredible financial challenges as a result of increasing void property numbers requiring significant investment to bring them back into use and unprecedented post Covid global financial and geo-political instability driving inflationary price increases.

5.2. Although existing contractual arrangements have cushioned the Council from some of the immediate financial impact, works tendered during this period have been significantly higher than on previous similar programmes.

5.3. Throughout the course of the year, measures have been implemented to mitigate the impact of these financial pressures on the HRA, with programmes paused and others scaled back in an effort to manage the challenges within approved budgets. Despite these efforts, regrettably this has not proved possible and additional funding is now required to enable continued delivery.

6. Background documents

6.1. Housing Revenue Account Business Plan: report approved by Executive on 5th December 2019.

6.2. Housing Revenue Account Business Plan – 2021/22 Review: report approved by Executive on 6th January 2022.

6.3. S106 Affordable Housing Commuted Sum Allocation: report approved by Executive on 1st April 2021.

6.4. Officer Decision Record dated 14th January 2022: Purchase of 22 Section 106 Properties in Selby.

6.5. Minutes of the Executive Meeting held on 7th April 2022: Selby District Housing Trust – Purchase of Trust Properties.

6.6. February 2022 budget reports to full Council

7. Appendices (EXEMPT NIFORMATION)

Appendix 1: 2022/23 elemental replacement programme analysis plus 2018/19 comparison

Appendix 2: Financial Modelling Options

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