**Report to:**

**Council: February 2023**

# Housing Revenue Account Budget Setting 2023/2024 and Beyond
## Report of the Leader of the Council

## 1. Purpose of the Report

1.1. To present to Council: The Leader's Housing Revenue Account Budget 2023/2024 & the Hull Housing Stock Investment and Asset Management Strategy 2023-27

1.2. The following Appendices are attached to the report:
1. Detailed budget annexes
2. Rent Policy 2023/2024
3. The Hull Housing Stock Investment and Asset Management Strategy 2023-27

## 2. Executive Summary

2.1. This report sets out the revenue and capital budgets for the Housing Revenue Account ("HRA") for 2023/2024 alongside indicative forecasts for future years. For the HRA the position is essentially business as usual, with no major changes planned, although the plan is affected by increasing pressures around Building Safety and increasing levels of Disrepair claims. In addition the Hull Housing Stock Investment and Asset Management Strategy has been updated to cover the period 2023 to 2027.

2.2. Whilst the Council, in line with housing services across the country, faces a series of difficult challenges over the coming years as a consequence of Government Policy changes, the latest projections and assumptions set out in this report provide assurance that the HRA remains sustainable in the short to medium term. Longer term projections are more challenging and highlight the need for modernisation in order to secure the future financial position and the service is focussed on delivering an appropriate programme of change. Changes that have taken place since Grenfell in the management of high-rise buildings and in particular fire prevention works have been significant and in future the costs of Carbon Net Zero are yet to be understood but could be significant.

2.3. Within this context it is important to note, however, that the HRA continues to face uncertainty which could impact adversely on future projections. For example, implementation of Universal Credit and the impacts on our customer base of the "Cost of Living Crisis" on our ability to collect income is, and remains, the biggest risk to the financial viability of the service. The longer-term planning assumes that rent rises revert to CPI only from 2025/26 but this could be changed at any time.

2.4. Governmental policy is still fundamentally directed towards social housing being a solution for people for when they need it and only for as long as they need it, with the emphasis mainly being on encouraging home ownership. At the same time the Government is looking to reduce the national housing benefit budget which will indirectly impact on housing authorities not least through the ongoing impact of Universal Credit.

2.5. Housing is a long-term business – it would not be prudent to look at the budgets over the short term – and present trends need to be taken into account when forecasting for the future. The plan is to manage resources and to put the HRA into the best possible position to respond to the direction of travel whilst at the same time undertaking a thorough review of the housing service both to modernise the existing offer and also to respond to the changes and challenges that continue to emerge.

2.6. This aligns to the Capital Strategy, which requires Local Authorities to demonstrate in the Strategy that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability, and affordability.

2.7. Significant issues and developments include:

New Build

2.8. Significant new build schemes[i] include

*Orchard Park*
- 133 properties in total
- 99 new properties at Dane Park (on the site of the former Primary School)
- 34 properties at Isledane
    - Full planning consent is in place for both these schemes.

*Replacement properties*
- 150 properties are planned to replace Boothferry flats
- 30 properties are planned to replace Henson Villas
    - Feasibility work presently being undertaken.

*Existing programme*
- 9 on existing Preston Road sites plus potentially 30 more Turnkey properties
- 18 new properties closing out existing small sites
- 55 more potentially on other identified sites from 25/26
    - Design work underway for these 73 new properties

*LA Housing Fund*

- 18 additional properties subject to viability - 3 to be 4+ bed properties & a further 15 1 to 3 bed properties

*Other HRA*

- For the foreseeable future a mix of new build and turnkey acquisitions are budgeted for, in total 50 properties per annum dependent upon sites being available that are viable to build on and turnkeys being available from builders at acceptable prices. This number is therefore indicative.

*Partners (non-Council)*

- Facilitated additional starts on site of 371 new mixed tenure homes through our lead developer partners Strata and Keepmoat which includes 77 affordable homes through Housing Association Delivery
- Secured delivery of an additional 66 affordable homes through the lead housing association Places for People in west hull through our lead developer partner Keepmoat Homes

*Travellers' sites (GF)*

- Planning permission obtained in January following Secretary of State Consent for 10 Permanent (6 double and 4 single) plus 17 temporary pitches, the permanent ones accessed from Bedford Street and Temporary from Mount Pleasant.

Building Safety Legislation

2.9. Post Grenfell, there have been significant changes in Building Safety legislation, covered in more detail in section 7 of this report. These place additional burdens on the Authority around maintaining and sharing information with Humberside Fire & Rescue Service about high rise buildings, in addition to registering properties with the Building Safety Regulator and producing safety cases for all such buildings.

2.10. We also need to provide information on building safety to residents and appoint named people as Responsible Officers.

2.11. A restructure of the Investment Service is planned to ensure we can address these issues and have appropriate levels of technical expertise available and in place.

Damp & Mould

2.12. Following the death of Awaab Ishak in Rochdale following prolonged exposure to mould, after repeated complaints from his family to the housing association, Rochdale Boroughwide Housing (RBH), which owned the flat the issue of Damp & Mould has become a matter of national housing priority.

2.13. The Regulator of Social Housing has recently written to registered providers of social housing to highlight landlords' responsibility to take action to protect tenants from hazardous damp and mould. Landlords need to submit evidence to the regulator to demonstrate that they have systems in place to identify and deal with damp and mould issues in their homes, and that they are addressing risks to their tenants' health.

2.14. The regulator will review this information and, where there is evidence that providers are not meeting regulatory standards, it will take appropriate action.

2.15. In terms of HRA stock, we have evaluated complaints and looked at repair orders over at least the last three years to ensure that any reports referring to damp and mould have been addressed. A damp and mould action plan is being produced based on the spotlight approach taken by the Regulator and Housing Ombudsman.

2.16. Where appropriate this will include, inter alia,

- (re) Surveying properties where damp and mould issues are suspected either because of reporting or repeated occurrences
- Ensuring we capture through our data indications that damp and mould may be an issue
- Promptly dealing with properties where issues are discovered

2.17. This is, of course, a cross tenure issue not just one for the HRA and we have been working both with our partner contractors and through private housing teams to ensure that this issue is tackled across the city.

2.18. In addition support to households via tenancy sustainment activity and Warm Homes team encourages those who are struggling with heating (& other day to day living costs) to apply for support or signposting to other available services and support where appropriate. Additionally properties where we have undertaken external solid wall cladding should be less prone to this issue.

Disrepair

2.19. The Council has recently experienced an exponential spike in disrepair claims (claims have been doubling every year since 2019/20) and given that a provision for disrepair has been included within the HRA budget at a cost of £1.3m. Further details are provided in this report at section 9.

2.20. It is assumed that the level of disrepair claims will remain high for perhaps 5 years and then start to decline steeply as we expect that there must be ultimately changes in legislation to deter the more egregious claimants. In the meantime we will defend claims wherever possible.

Housing Stock Investment and Asset Management Strategy 2023-27

2.21. This new strategy is our working plan to respond to the demands and challenges of the legislative and recommended changes that Landlords must adhere to in areas such as Building Safety, the White Paper and the Carbon Agenda. The key objective is to involve and provide as much input as we can with our customers to shape housing investment and deliver homes that are safe, secure and affordable where people want to live.

Rents – 2023/24

2.22. The current national rent strategy is for rents to increases by CPI+1% in 2023/24 and 2024/25 with future policy unknown.

2.23. On 31 August 2022, the Department for Levelling Up, Housing and Communities launched a consultation on a proposed direction from the Secretary of State to the Regulator of Social Housing ('the Regulator') in relation to social housing rent policy. It focused on the proposed introduction of a rent ceiling from 1 April 2023 to 31 March 2024, as a temporary change to the existing policy that permits rents to increase by up to CPI + 1 percentage point each year. The ceiling would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year.

2.24. Following that consultation a rent ceiling of 7% was imposed as part of the Budget. No decision was made in relation to 2024/25. Benefits are due to increase in line with inflation (10.1%).

Rent Rises post 1/4/25

2.25. The existing National Rent Policy of CPI+1% expires at the end on 2024/25. To date the Government has not commenced consultation on whether this Policy might continue or be amended. Future years assume rents increase at CPI only. This is generally consistent with practice across the sector.

Costs and Savings

2.26. The HRA is seeing significant cost pressures in the current financial year where's new build costs expected to increase by between 25% and 30%, repairs and maintenance costs are expected to generally increase by 10%, significant increases in utility costs and in relation to last years budgeted pay rise we underestimated the impact and therefore there needs to be a significant budgetary catch up. In addition we face significant increases in costs from disrepair. This comes against a year when rent increases are capped at 7%.

2.27. This means in the medium term the HRA has to make more savings than were previously assumed in last years budget. This has also brought forward the point at which the HRA would go into deficit were there to be no further controls on costs.

2.28. In line with the rest of the council there will be a vacancy freeze in place, except in relation to posts where a business case for replacement can be made. Additional savings of over £200k are expected to accrue in 23/24 as a direct result. The reversal of the NHS and social care levy has saved £115k and the reduction in corporate pension contributions has saved £100k per annum.

Reduced expenditure on premises and work smart will also save over £150k in the coming year.

2.29. In the short term higher than expected interest rates mean that the HRA will earn significant interest on its balances and has saved a significant amount of money following borrowing £75m in advance three years ago. these are however not ongoing savings.

2.30. In addition longer term savings are needed. In part these will be achieved through the efficiencies that the implementation of the new housing management system is able to bring to bear and also through review of the sustainability of different types of stock. For example the housing management system will allow tenants to interact with us using more modern methods which should reduce the volume of calls to the call centre and the number of visits to our offices which will allow us to deliver services more cost effectively.

2.31. There is presently a significant gap in providing both caretaking and communal facilities in multi-storey flats in particular and over the medium term we intend to close this gap.

## 3. Recommendations

3.1. The Council is recommended to approve:-

i) The revenue budget as set out in paragraph 10.1;

ii) The capital budget as set out in paragraph 15.1;

iii) The rent and service charge changes as set out at Appendix 1 (8) and 1 (9) respectively; and

iv) The Rent & Service Charge Policy (appendix 2)

v) the Hull Housing Stock Investment and Asset Management Strategy 2023-27 (appendix 3)

## 4. Reasons for Recommendations

4.1. The Local Government and Housing Act 1989 requires the Council to maintain a Housing Revenue Account in accordance with proper practices. The Council must approve a budget for the HRA that does not go into deficit. There is, therefore, no legal option to not set a budget. The HRA budget must be set during the months of January or February.

4.2. Notice of changes to rent must be given to tenants giving at least 28 days' notice of the changes coming into force which means that the notice must be in their physical possession no later than 4th March 2023.

4.3. This report enables the Council to fulfil those statutory obligations.

## 5. Revenue Budget 2022/2023 – Consultation

5.1. Briefing sessions for all stakeholders took place on 30th and 31st January 2023. Over 60 tenants and leaseholders, councillors and officers attended these events.

5.2. Discussions re the budgets and scope of work have been undertaken with KWL, as our partner contractor, on the future capital and revenue repairs programmes as part of the change management process. The draft capital and revenue programmes have been shared with KWL.

5.3. In addition a session was held with affected tenants and leaseholders in relation to the HQN report on service charges on 30th January 2023. Further details on this can be found at section 11. Over 70 tenants and leaseholders attended this event.

## 6. Background and Underlying Assumptions

Background

6.1. The Council presently owns approximately 23,500 homes making it the 10th largest local authority housing business in the country with an annual turnover from rents and other sources approaching £100 million per annum.

6.2. The overall financial strategy for the Housing Revenue Account is centred around:

- achieving and maintaining the Decent Homes Standard under the stock retention strategy approved by Council in March 2005

- supporting the Housing and Neighbourhood Renewal Strategy

- providing a customer focused and effective repairs and management service; and

- maintaining a sufficient level of balances both as a contingency against risks and to ensure that investment can be sustained over the 30 year business plan.

## 7. National Policies & Regulation

Social Housing (Regulation) Bill

7.1. The Social Housing (Regulation) Bill was introduced the Parliament earlier this year and is presently in the report stage prior to third reading in the Commons.

The Bill aims to deliver the proposals set out in the Social Housing White Paper by introducing a number of measures to give tenants greater powers, improve access to swift and fair redress, and enhance the powers of the Regulator of Social Housing.

7.2. The core objectives are:

- *To introduce a new, proactive consumer regulation regime:*

- *To refine the existing economic regulatory regime*

- *To strengthen the Regulator of Social Housing ("RSH") in enforcing the consumer and economic standards*
  - *All social landlords will be required to ensure that their staff meet competency standards*
  - *Regulator to publish plan for regular inspections (commencing no later than 2024) of largest landlords (para 7.10 below) which will take place over a four year cycle and will apply to landlords with over 1000 homes.*

7.3. It also includes the requirement to appoint a named person to lead on health & safety requirements which underpins the Building Safety Legislation covered later in this section.

7.4. Moreover the RSH is now empowered to serve a Performance Improvement Plan ("PIP") on a Registered Provider where it has failed to meet a standard and/or it's tenants are at risk. The only route of appeal against a PIP is via the High Court.

7.5. The RSH will also have the powers to enter any premises at any reasonable time to carry out a survey and there are serious concerns can intervene and carry out remedial works with the landlord being billed where there is *"an imminent risk of serious harm to the health or safety of the occupants*".

Regulator of Social Housing

7.6. It is important to note that the Council falls under the remit of the Regulator of Social Housing, who publish Seven Standards[ii]:

*Consumer standards*

7.7. These apply to all registered providers including local authorities
- *Home Standard*
- *Tenancy Standard*
- *Neighbourhood and Community Standard*
- *Tenant Involvement and Empowerment Standard.*

*Economic standards*

7.8. Only the Rents Standard applies to LAs.
- *Governance and Financial Viability Standard*

- *Value for Money Standard*
- *Rent Standard*

7.9. Reshaping consumer regulation our principles and approach was published in November 2021 which is focused on
  - *principles and outcomes*
  - *standards - new consumer standards are being developed but there is no published time scale at this moment in time*
  - *the approach to consumer regulation which is going to be*
  - *Co regulatory*
  - *Proportionate*
  - *Risk based*
  - *assurance based*
  - *outcome based (which will in part be driven by the tenant satisfaction measures)*

<u>Inspection</u>

7.10. The Regulator of Social Housing published Reshaping consumer regulation: our implementation plan[iii] on 12th January 2023. This sets out the steps RSH is taking to get ready for the landmark Social Housing Regulation Bill, which has nearly finished its passage through Parliament.


7.11. The legislation will bring about one of the most fundamental changes to social housing regulation for over a decade. It will set new expectations on the services that landlords need to provide for their tenants, introduce regular consumer inspections of social landlords and give RSH stronger powers to hold landlords to account.

7.12. The regulator's implementation plan describes the progress it has already made in gearing up for new consumer regulation, as well as the next steps over the coming year. Subject to the Bill being passed in early 2023 and receiving the necessary directions from government, RSH expects to implement the new approach from April 2024.

7.13. The new approach will include inspecting all large social landlords against the new standards, including housing associations and local authorities, every four years. These inspections will build on the regulator's experience in carrying out its intensive and challenging in-depth assessments for economic regulation.

*Tenant Satisfaction Measures*

7.14. Following publication of the Social Housing White Paper the Regulator of Social Housing set out a number of steps they were taking to implement the changes, including bringing in a range of Tenant Satisfaction Measures ("TSMs") with the aim that those measures

- let tenants see how well their landlord is doing give the Regulator an idea of which landlords might need to improve things for their tenants.
- give the RSH an idea of which landlords might need to improve things for their tenants.


7.15. The timetable

- September 2022 – new TSMs, the TSM Standard and the Regulators requirements for TSMs are published.
- 1st April 2023 – new requirements come into force and landlords start collecting data for the new TSMs.
- Summer 2024 – landlords will send their first year of TSM data to the Regulator.
- Autumn 2024 – first year of tenant satisfaction data is published by the Regulator.

7.16. All social landlords will be required to submit data annually against each Measure. The outcome of the consultation was released in September, including a final list of 22 TSMs. They cover five main themes:

- 'Keeping properties in good repair';
- 'Maintaining building safety';
- 'Effective handling of complaints';
- 'Respectful and helpful engagement'; and
- 'Responsible neighbourhood management'.

[iv]

7.17. Data on the TSMs must be collected from 1 April 2023, with submission to the RSH from the summer of 2024 in order to inform their inspection programme.

7.18. Twelve of the TSMs will be collected through tenant perception survey questions and will be generated from landlord management information. In regard to the 12 tenant perception questions, much of our data will come from an annual tenant perception survey called STAR (Survey of Tenants and Residents), which we and many other social housing landlords have undertaken for a number of years. The data we currently have against the range of 22 measures puts our performance very much in the middle 50% of social landlords. It is intended that a session will be offered to Members and tenant representatives on the TSMs early in the New Year.

7.19. The Housing Ombudsman requires us to carry out an annual self-assessment against their Complaint Handling Code, which we carry out each September. We were currently fully complaint at our last assessment

Building Safety Legislation

7.20. The Building Safety Act 2022 received Royal Assent on 28th April 2022. This legislates for safety of people in buildings, standard of buildings, and complaints to the housing ombudsman, including “ground-breaking reforms to give residents and homeowners more rights, powers, and protections – so homes across the country are safer” (gov.uk)

7.21. Three new bodies have been created as a consequence:

**Building Safety Regulator (Health & Safety Executive) – BSR**

- Can exercise powers in line with regulatory best practice
- Can target enforcement activity and sanctions to improve safety / performance of buildings
- Works with local authorities / fire and rescue

**National Regulator of Construction Products**

- Works with Regulator to oversee safe design, construction and occupation of high-rise residential buildings

**New Homes Ombudsman**

- Investigation / Complaints service for new homes

7.22. Other pertinent legislation includes

**Fire Safety (England) Regulations 2022**

- Implements recommendations made by the Grenfell Tower inquiry which required change in the law and seeks to improve the fire safety of blocks of flats in ways that are practical, cost effective, and proportionate to risk of fire. This comes into force 23rd January 2023

**Social Housing Regulation Bill (formerly Social Housing White Paper)**

- Likely to include aspects of Health & Safety Lead required by client organisation.

7.23. This legislation follows on from Grenfell and is likely to place a significant administrative burden on the Authority in compiling

Decent Homes

7.24. The Government is committed to achieving a decent Homes Standard applicable across all rented housing. A decent home has been defined as:

- meeting the current statutory minimum standard for housing;
- In a reasonable state of repair;
- Has reasonably modern facilities and services; and
- Provides a reasonable degree of thermal comfort

7.25. The review is currently concentrating on

- Thermal comfort and energy efficiency
- Ventilation
- home security
- thermostatic mixer valves
- window restrictors
- electrical safety
- refuse management
- water efficiency

7.26. in addition, post Rochdale, there is a new focus on mould and condensation.

Professionalisation review

7.27. All social landlords will be required to ensure that their staff meet minimum professional standards

7.28. The review of qualifications and professional training aims to *"drive up standards by making sure social housing staff are better equipped to support tenants, deal effectively with complaints, and to make sure homes are good quality".*

7.29. This will explore the qualifications currently available for staff with landlords, residents, and trade bodies requested to put forward recommendations to the government. This may ultimately Harold a required level of accreditation of housing staff and therefore may have implications for training costs.

Heat & Buildings Strategy

7.30. In October 2021 the Government published its Heat & Buildings Strategy[v] which sets out the government's plan to "significantly cut carbon emissions from the UK's 30 million homes and workplaces in a simple, low-cost and green way whilst ensuring this remains affordable and fair for households across the country. Like the transition to electric vehicles, this will be a gradual transition which will start by incentivizing consumers and driving down costs".

7.31. Measures include:

- ensuring all new buildings in England are ready for Net Zero from 2025 (which means prohibiting the use of gas boilers in new build properties) this is in the Future Home Standard so will happen as you won't be able to reach FHS with a gas boiler

- phasing out the installation of new natural gas boilers from 2035- this needs to be legislated for yet but the Skidmore Review published last Friday suggest bringing this forward to 2033
- rebalancing energy prices to ensure that heat pumps are no more expensive to buy and run than gas boilers (in effect shifting the levy from electricity alone to electricity and gas- awaiting consultation on how this will be done but currently on hold because of the cost-of-living crises but needs to happen
- phasing out the installation of fossil fuel heating systems in properties not connected to the gas grid again needs legislation I think there was a draft timetable will try and find it.

7.32. In addition there will be trials of the use of hydrogen for heating, consultation on hydrogen-ready boilers. This is happening at a pilot in Teesside starting this year. At least three manufactures have hydrogen ready boilers developed.

7.33. This means in the long term that there will be a radical change in the way we all heat our homes over the medium term.

7.34. Additionally the Government is consulting on proposals for mandatory requirements on mortgage lenders to disclose the energy performance of homes on which they lend, voluntary improvement targets by 2030 (with Mortgage Lenders having a target of their portfolios to have an average EPC rating of C) and possibly a net zero Minimum Energy Efficiency Standard by 2050. Potentially, therefore, it could become progressively more difficult to buy and sell older homes that have not been improved as well as to rent them out. Whilst there is no progress so far on this, the Skidmore Review raised this again and for improvements to EPC's. However, at the moment the funding for energy home improvements is very patchy and underfunded so hard to see some of this coming into force until the finance products are in place.

7.35. In the private rented sector, it is expected that the government will ratchet up the Minimum Energy Efficiency Standard required for landlords to be able to rent a home from EPC E by 2020 to D by 2025 and C by 2030. For the social housing sector, the review of the Decent Homes Standard is ongoing and the strategy says the government will consider "a long-term regulatory standard to improve social housing to EPC band C, with levers required to decarbonise the stock in line with net zero".

7.36. Overall funding to meet the costs of retrofit are unclear. Some of this will be from costs avoided but there is likely to be – at least in the short term – a net cost associated with this, and this is reflected in one of the sensitivity analyses.

Carbon Net Zero

7.37. In June 2019, the UK became the first major country to legislate for a net-zero target for carbon emissions by 2050. Government needs to shape policies and regulations to create a market environment that increases consumer and business demand for low-carbon solutions and encourages sustainable private sector investment decisions. Policies across all areas of government interact to influence the transition of the whole economy towards net zero.

7.38. Moreover, the use of gas boilers in new build will probably be banned from 2025 with Government consulting as to whether it is appropriate to end gas grid connections to homes constructed from 2025, in favour of alternative low-carbon heat sources. This effectively means properties where the build is commenced in 2023 have to be designed to exclude gas boilers.

7.39. The Government has also published it’s ten-point plan for a green industrial revolution[vi] which “sets out the approach government will take to build back better, support green jobs, and accelerate our path to net zero”.

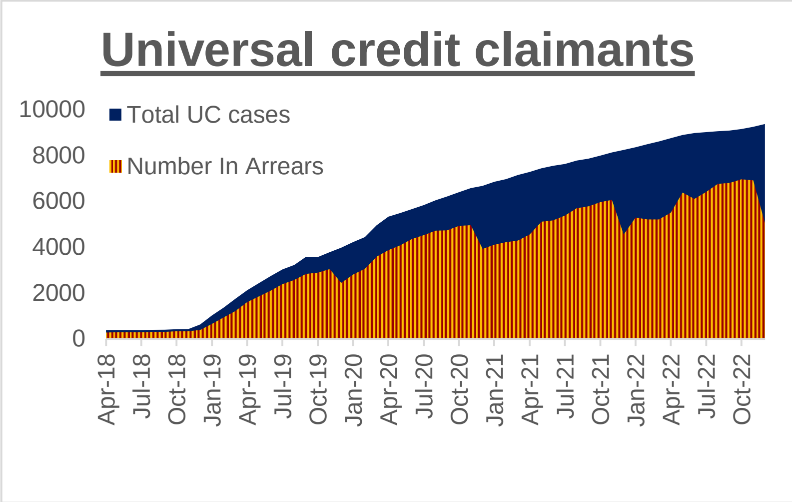
7.40. The plan focuses on increasing ambition in the following areas:

- advancing offshore wind
- driving the growth of low carbon hydrogen
- delivering new and advanced nuclear power
- accelerating the shift to zero emission vehicles
- green public transport, cycling and walking
- ‘jet zero’ and green ships
- greener buildings
- investing in carbon capture, usage and storage
- protecting our natural environment
- green finance and innovation

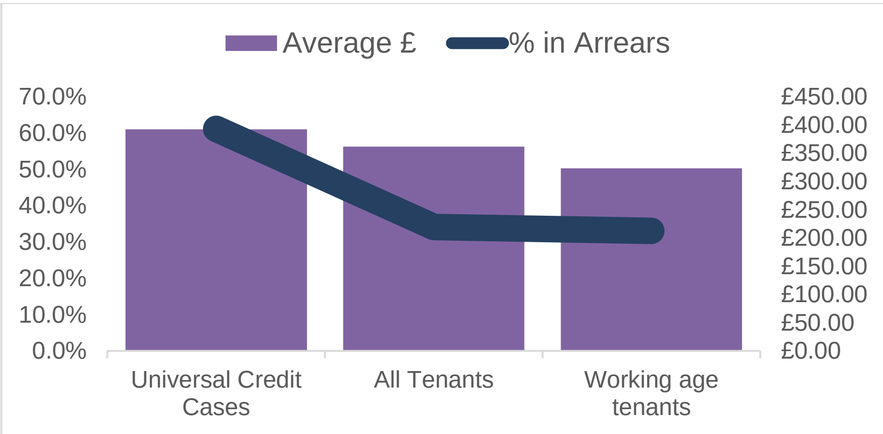
Universal Credit (“UC”)

7.41. Full roll out of Universal Credit in Hull commenced in December 2018 although those areas of Hull that fall within the Hessle Job Centre catchment area went live in July 2018. From that date, all new claims for means tested working age benefits administered by the Department for Work and Pensions (“DWP”) will be for UC. In transaction terms alone this means an additional half million payments need to be processed compared to Housing Benefit. Universal Credit is a major risk to the organisation, and when fully rolled out will require officers to proactively collect an additional circa £35 million per annum, previously received in the form of HB.

7.42. Since December 2018 the number of tenants on UC has risen steadily as have the number of those tenants with arrears. One third of tenants on UC are now on an Alternative Payment Arrangement. In the short to medium term the additional impact caused by the Coronavirus has the potential to be significant. The service is particularly concerned about the longer-term impacts of these changes. Overall we ultimately expect around 10,000 or more tenants to be on Universal Credit so there is still substantial growth in numbers to come.




7.43. To date, the level of arrears for those tenants on UC (or at least those that are known about) compared to tenants on average are as shown.




7.44. The expectation is that over the next four years we will build towards a total number of UC cases of 10,000 which could see arrears levels reach wholly unsustainable levels potentially approaching £7m to £8m, alongside the risk of increases in evictions. This, of course, assumes that there are no changes to the underlying scheme.

Account Analytics

7.45. In terms of mitigating actions the Council has also procured NEC's Account Analytics software, a cloud-based software solution which uses algorithms to analyse payment behaviours, aggregate trends, highlight risk and provide predictive intelligence.

Future rent increases

7.46. The Regulator of Social Housing has recently published the final Rent Standard for 2022/23 which allows for rent increases of up to CPI+1% up to 2025/26 (as CPI was 3.1% this allows a rent increase of 4.1%), although there is no certainty as to what the rent regime might be beyond that date, but for forecasting purposes CPI is assumed. The business plan fundamentally requires this level of increase to take place to remain viable over the medium to long term. The Rent Standard applies not only to housing associations and other private registered providers but to Local Authorities.

## 8. Impact of Local Priorities & Policies

Business Plan

8.1. Our services are framed within the service's current draft business plan, which spans the period 2021-26, and which complements the new Housing Strategy - an update of this is currently in its final stages of consultation and approval. The overall vision outlined in our business plan is:

**"Building great places together, putting residents first".**

8.2. This vision is supported by 5 ambitious strategic themes for delivery over the life of the plan. They are:

| |
|---|
| **1. Focussing on customer experience.** |
| **2. Putting residents first and meeting their needs.** |
| **3. Addressing the challenges of safety, sustainability and climate change.** |
| **4. Our role in strengthening Hull's neighbourhoods & communities.** |
| **5. Investing in modernisation and organisational development.** |

8.3. Many of our services are prescribed in law or by regulation, and every effort is made to ensure that our services are compliant with these. We are working within a context of ever closer inspection.

Hull Housing Stock Investment and Asset Management Strategy 2023-27

8.4. As reported as part of the HRA Budget report last year the Asset Management Strategy required updating, the previous version covering the period to March 2022 having been extended for a year whilst we undertook more research and gained more understanding of future years requirements, not least those arising post Grenfell in relation to Building Safety and those relating to net Zero Carbon obligations.

8.5. The new Housing Asset Strategy and Plan builds on the success of the precious plan and responds to the changes and influences that are likely to affect Hull over the next four years.

8.6. The Strategy is Hulls strategic plan for managing, maintaining, and developing its housing stock. Along with this HRA Business Plan it sets out the council's short-to-medium term plans and priorities for its housing stock management services and provides a long term (30 year) perspective on stock investment and financial planning. Successful investment in our stock should ensure less maintenance calls for our tenants. The Strategy also sets out a clear action plan for the next 4 years but guidance and legislation for housing is changing at such a pace that the action plan will be monitored to ensure we are adapting and incorporating significant changes.

8.7. The White paper was drafted in the immediate aftermath of the Grenfell Tower fire, one of the worst housing tragedies in our country's history and is one of the most influential pieces of housing legislation for many years guiding how we are required to manage and maintain our homes going forward. The White Paper, now enshrined in legislation, details the Government's proposals for ensuring that social homes are safe and secure and that tenants of social housing have a voice in managing their homes This Strategy shows how we will support the delivery of both the Housing Bill and our own local priorities through the delivery of our medium and long term programmes and the impact the legislative changes have had for the Housing Revenue Account. It also sets out an approach to procurement which aims to ensure that maintenance and improvement programmes are delivered in the most cost-effective way

KWL Contract Review

8.8. KWL previously underwent a five-year comprehensive review during 2017/18 as part of the Housing Repairs & Maintenance contract with the Council. The Executive Commissioning Committee (ECC) received a detailed report of the outcome in April 2018, from the independent Ark consultants which found that the Company's performance under the Agreement has not failed. Included within the budget are the implications of moving to price per property for day-to-day repairs and price per average void. A new Term Alliance Contract began in January 2020. At present repairs and maintenance costs show a £3.9m[1] increase from the contract that was in place, this is due to a mixture of prices, volumes, & standards. The impact of Covid has not provided a sound year of information to reliably assess the impact of the new ways of working and the annual Open Book Assessment has not taken place. This is planned for early in 2023.

New Build programme/ Housing Growth Plan

8.9. A report entitled "Housing Growth Plan 17-20 and City-Wide Land Strategy" was approved by Cabinet in January 2018 outlining a number of smaller sites to include within an ongoing build programme. The Housing Growth Plan sets out how Hull City Council will facilitate new housing delivery in order to fulfil the objective set out in the Local Plan that an additional 620 new homes are built per annum for the plan period. The report also sets out the proposed

[1] Pre contract KWL budget (19/20) was £20.545m and in 22/23 was £24.355m, an increase of £3.901m. This was discussed at the Core Group on 23/1/23.

approach to land owned by the Housing Revenue Account (HRA) and how this will be used to deliver housing growth and seeks approval for the programme.

8.10. Included within the HRA budget is a programme of over 700 properties over the next seven years, including bringing back into use long term empty properties, including at least 150 directly arising from the replacement of the Boothferry flats.

Cladding works and Hull's Affordable Warmth Strategy 2019-2023

8.11. Hull's Affordable Warmth Strategy 2019-2023 was approved by Cabinet in November 2018. In the meantime the cladding / solid wall insulation programme will continue with a further c. £40m of works scheduled to complete the external cladding works.

NEC

8.12. Work to implement the new Housing Management System remains ongoing but is substantially complete for the core system. Photobook has been introduced allowing us to capture and record images on our system which should, inter alia, also help to build knowledge of our stock and to provide defences against spurious disrepair claims.

8.13. Further elements are described below:

*Engage*

8.14. We are implementing Engage, an App from NEC, which will make it easy for tenants to:

- bid for a home
- make payments such as rent
- report repairs and maintenance
- engage with N&H on a range of matters including neighbourhood issues, consultation, community collaboration

8.15. It will replace the current Housing Online Solution, which has c13,000 registered users. Phase 1 (early 2023) will include the above functionality. It will be developed to include additional functionality through future phases.

8.16. It is intended that it is:

- Easy to use – mobile first, i.e., an app that will also work on desktops, laptops etc.
- Enable interaction across a range of business needs, such as collaboration, community engagement, feedback
- Provide a single point of contact that doesn't involve navigating a website, portal, Google etc.
- Offer full analytics to understand tenant behaviour, issues, problems etc.

- Provide two-way communication – alerts, updates etc.

8.17. Key Benefits of this App will be

- Contact Centre
  - Introduction of the App should help reduce high contact centre volumes relating to housing issues such as repairs.

- Communications
  - Ability to send notifications e.g., “Don’t forget your rent is due tomorrow”
  - Two-way communication between N&H and Tenants will enable full audit trail

- Publication of Info / Documents
  - Directly publish property / tenant-specific content such as Building Safety under the Building Safety Act 2022 – e.g. “Please find attached the latest electrical check certification for your home”

- New Technology

  - Able to plug in new technology such as Internet of Things (IoT) to enable tenants to view data from devices in their homes

the App is intended to go live during the first quarter of 2023.

*NEC DMS (Document Management System) – formerly Info@Work*

8.18. NEC DMS holds all scanned electronic documents across the Neighbourhoods and Housing service, including tenancy files, allocations, supporting evidence etc. They are indexed and made available to users through integration with the main housing management system. In 2023/24 the system will be upgraded to the latest version and migrated to the supplier’s cloud in line with Council strategy. The system will help us be compliant with new legislation such as the Building Safety Act 2022 which requires tenants to be able to receive safety information and records from their landlord.

*Asset Management*

8.19. A new module to replace the existing Asset Management system is presently underway with a view to the replacement being in place over the late summer of 2023. This will allow greater integration of asset management data and will hold all compliance information (which is of particular importance in meeting our Building Safety and wider Health & Safety responsibilities).

Hull Compact for Tenant Involvement

8.20. The revised Hull Compact for Tenant Involvement covering the period 2023-28 is due to be launched in February. This sets out the over-arching relationship between how we interact as a Housing Provider with our tenants and leaseholders.

## 9. Financial Pressures and Savings

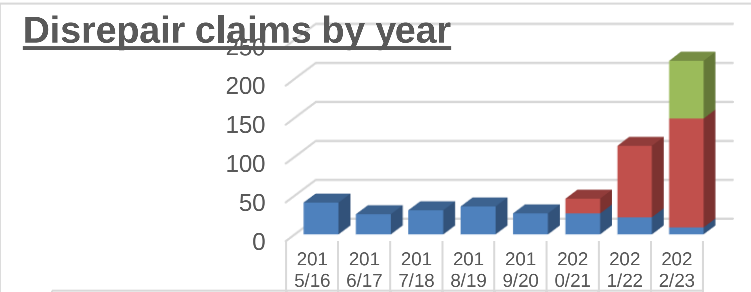
<u>Disrepair</u>

9.1. Recent years – especially since 1st January 2022 – have seen significant increases in the number of Disrepair Claims lodged by tenants against the Council.

9.2. Council tenants have a legal right under the Landlord and Tenant Act 1985 to have repairs to the structure and interior of their homes completed by their landlord. The Homes Fitness for Habitation Act 2018, which came into force in April 2020, extended the landlord's legal obligations to also make it a statutory duty to ensure homes are fit for human habitation. If the landlord does not, once on notice of the need for repair (normally via a report from the tenant), carry these out within a reasonable period of time, they may be found liable by the courts to not only remedy any outstanding disrepair but also to pay the tenant damages for any loss or inconvenience suffered as a result of that repair not being properly completed. Obviously in those cases where, upon investigation, it is clear that the Council will have liability, the Council's Legal Services will seek to settle the case on the best possible financial terms that can be negotiated.

9.3. Disrepair claims are not a new phenomenon for the Council; they have been received in larger or smaller numbers for over a number of years but are currently at their highest for many years. The reasons for the current increases are down to a combination of factors including the extension of landlord obligations for ensuring fitness for human habitation. It should be noted that the presence of mould, which is not necessarily due to structural disrepair, is a common cause of unfitness which was not previously actionable by tenants under the Landlord and Tenant Act 1985. The other major contributors are a general increase in public knowledge of social landlord failings in respect housing conditions due to publicity in the mainstream media coupled with the prevalence of canvassing firms actively seeking out potential claims.

9.4. The graph shows the latest position and gives the number and status of cases received in each of the recent years, together with a projection until the end of the current year. It illustrates the considerable time taken to fully and properly process each case to closure.




| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|---|---|---|
| Expected rest of the year | | | | | | | | 74 |
| Open claims | | | | | | 19 | 92 | 140 |
| Closed claims | 41 | 26 | 31 | 36 | 27 | 27 | 22 | 9 |

9.5. Both canvassing firms and solicitors who process disrepair cases are able to make significant money from housing disrepair. Canvassers widely advertise to tenants, both on social and other media, the potential for financial compensation payments for those who believe their home is in disrepair. They also regularly leaflet and engage in door-knocking activities on council estates to attract new clients, some of whom have reported feeling pressurised to pursue matters. Canvassers make money by referring potential disrepair claims to firms of solicitors who pay for these. The solicitors, mainly based in the north west of England, bulk handle disrepair cases through which they make significant amounts profit costs. It should be noted that many of these firms previously concentrated on personal injury cases but when legal rules on costs changed to introduce a fixed cost regime, they switched their focus to disrepair claims which do not have similar costs limitations placed upon them.

9.6. A feature of the current claims is that whilst previously it had been generally possible to settle cases with opposing solicitors where the Council has not addressed repair issues correctly, there is now a hardcore of legal firms who will not negotiate and will issue claims in the Court regardless of any reasonable offer of settlement proposed to them, even if this is to include their profit costs to that point. It is considered that this is because the firms involved are seeking to maximise their profit costs by elongating cases for as long as possible before agreeing settlement, thus racking up additional costs. As the Council is the Defendant it is effectively on the back foot and cannot force a settlement and is thus at the mercy of the tenant's solicitors. There are currently 72 different legal firms actively pursuing cases against the Council on behalf of clients and claims are regularly received from new firms. As the cost-of-living crisis deepens it is likely that increasing numbers of tenants with no viable claim will be willing to engage solicitors going forward in the hope of receiving compensation payments.

9.7. Although the vast majority of claims received are over inflated and contain many spurious items of disrepair (in the long list of items normally reported which almost always includes damp regardless as to whether there is evidence of this), regrettably, it is considered that of the claims currently being brought against the Council, only a minority have no merit whatsoever, the majority having some justified and genuine elements which stem from a number of potential failings by the Council and its contractors. These include (but are not limited to) not carrying out a reported repairs within a reasonable period of time; the work being carried out inadequately or not at all; repairs being cancelled due to alleged non-access; misdiagnosing defects and carrying out work that will not remedy the defect; not addressing consequential damage caused by water escape. We are working to improve how the contract on PPP operates to ensure homes are repaired in a holistic way to meet decency standards and are left free from hazards.

9.8. A number of actions are in hand to ensure repairs are carried out to a standard, including a new suite of KPI's having been introduced for the partners to monitor performance, a new non-access procedure being introduced to prevent repairs from being cancelled due to failed access, and endeavours being made to promote greater partnership working between the Council and KWL.

9.9. Additionally the introduction of routine tenancy visits should allow staff to pick up more cases before they become serious.

9.10. The average cost per closed case based on recent years is currently £5,135. Spend on disrepair for the current financial year is currently estimated at £1.2m. This compares with a total repair budget for the year of £26.5m. It should be highlighted that as well as repair costs there are also separate legal costs. Legal Services have had to bring in locum staff to ensure legal timescales are met with these cases, the cost of which has to be passed on to the HRA.

9.11. In terms of the future, it is considered that the trend of increasing numbers of disrepair claims will only increase in the short to medium term, especially with the issue of damp and mould being highlighted. However, it is assumed that after 5 years they will start to decline steeply as we expect that there must be ultimately changes in legislation to deter the more egregious claimants. In the meantime we will defend claims wherever possible.

9.12. Accordingly additional provision of £1.32m has been included in the budget for 23/24.

“Cost of living crisis” & bad debts

9.13. The implications of increasing numbers of tenants on Universal Credit and the wider “cost of living crisis” is likely to put additional pressure on our rent collection efforts, and ultimately feed through into increased bad debts.

9.14. Our Tenancy Support team has worked with over 1500 tenants this year encouraging those who are struggling with heating (& other day to day living costs) to apply for support or signposting to other available services and support where appropriate. Overall £250,000 of direct support is built into our budgets through the Tenancy Support Team budgets and augmenting the Discretionary Housing Fund the council administers.

Demand for properties

9.15. There has been increasing demand for our properties since the pandemic generally and we are starting to see a position whereby our vacant properties are, in effect, solely being allocated on need. We are working with other providers where possible as well as our extensive new build programme to maximise the number of available homes but we also continue to support people to access affordable private rented accommodation where we are unable to directly provide housing ourselves.

Homelessness

9.16. More specifically there has been an increase of around 30% in Homeless presentations to the Council. We maintain a stock of around 100 homes for temporary accommodation purposes in the HRA, including people presenting as homeless.

Carbon Net Zero

9.17. At this point the costs of implementation are not yet known – recent estimates published by CIPFA contain a range of putative costs (some of which would already be included in our business plan), which for Hull, could translate into a gross cost of between (say) £10,000 per property [£250m] and £25,000 per property [£625m].


9.18. Additional costs of £5,000 and £10,000 are built into the scenarios shown later in this report. It should be stressed that at this stage both the gross costs as the market matures (although of course material prices and construction inflation may add to the costs above) and the amount of Government grant are wholly unknown.

9.19. In the meantime a range of government funding regimes around decarbonisation have been/continue to be announced including Social Housing Decarbonisation Fund, Green Homes Grant[vii] and 'Local Authority Delivery' (LAD).

## 10. HRA Revenue Budget

10.1. The proposed revenue budget is set out below:

| | Current Budget 2022/23 | Proposed Budget 2023/24 | change | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | %age |
| **INCOME** | | | | |
| Dwelling rent income | 92,515 | 98,660 | 6,145 | 6.6% |
| Charges for services & facilities | 3,964 | 4,372 | 408 | 10.3% |
| Non dwelling rents | 1,215 | 1,258 | 43 | 3.5% |
| Leaseholders charge for services | 450 | 531 | 81 | 18.0% |
| Other fees & charges | 446 | 461 | 14 | 3.2% |
| Interest on balances | 143 | 2,838 | 2,695 | 1883.3% |
| General Fund Transfer re whole community | 1,139 | 1,449 | 310 | 27.2% |
| **TOTAL INCOME** | 99,874 | 109,570 | 9,696 | 9.7% |
| **EXPENDITURE** | | | | |
| Repairs & Maintenance | 26,548 | 28,307 | 1,759 | 6.6% |
| Supervision and Management | 18,063 | 20,725 | 2,662 | 14.7% |
| Special Services | 6,097 | 8,341 | 2,244 | 36.8% |
| Rent, rates, taxes & other charges | 1,038 | 1,063 | 25 | 2.5% |
| Provision For Doubtful Debt | 852 | 920 | 68 | 8.0% |
| Capital Financing Costs | 46,917 | 48,309 | 1,392 | 3.0% |
| Contribution to Corporate & Democratic Core | 355 | 376 | 21 | 6.1% |
| Provisions | 182 | 250 | 68 | 37.3% |
| **TOTAL EXPENDITURE** | 100,052 | 108,292 | 8,240 | 8.2% |
| Net surplus / (deficit) | (178) | 1,277 | 1,456 | |

10.2. Within appendix 1, section 4, the 4 key financial indicators used to measure the financial health of the HRA are set out. The two related to the Revenue budget are

| Key financial indicators | Current Budget 2022/23 | Proposed Budget 2023/24 | change | Target |
|---|---|---|---|---|
| Operating Margin | 18.19% | 14.73% | (3.47%) | *20% minimum* |
| Interest Cover Ratio | 2.09 | 1.91 | (0.18) | *> 1.50* |

## 11. Rents and Other Income

Rents

11.1. Rent levels will rise by 7%.

11.2. Typically, Governmental Rent Policy allows rents to rise by up to CPI+1% based on the previous September's rate of inflation (10.1%). This would have meant rents could rise by up to 11.1%. The Government commenced a consultation on rent increases at the end of August 2021 and as part of the budget on 17th November announced the outcome of this consultation. This placed a cap on rent increases of 7%.

11.3. A comparison in rental income[2] is provided in the table below:

| | 2022/2023 | 2023/2024 | change | | |
|---|---|---|---|---|---|
| average rent per week | £77.73 | £83.34 | £5.61 | 7.2% | 52 week basis |
| | *£80.84* | *£86.67* | *£5.83* | *7.2%* | *50 week basis* |

11.4. We are now regulated on rent setting by the Regulator of Social Housing who publish an Annual Rent Standard[viii]. The Rent Standard is one of three economic standards that the Regulator of Social Housing requires registered providers to comply with. It sets the requirements around how registered providers set and increase rents for all their social housing stock in line with government policy as set out in their Policy Statement on Rents for Social Housing[ix]. Increases of CPI+1% remains Government policy for 5 years following the 4 year period of enforced 1% reductions. However, given the impact of current inflation levels the Government has imposed a cap of 7% this year.

11.5. This covers the period 2020/21 to 2024/25. From 2025/26 it is unclear what Government Rent Policy may be and for forecasting purposes rents are assumed to increase by CPI from that point.

11.6. An updated "Rent and Service Charge Setting Policy Statement 2023/2024" is included at Appendix 2 which remains substantially unaltered from previous years, except in relation to service charges where we have made it clear that service charges will only rise in excess of rent increases in exceptional circumstances.

11.7. In line with Government Policy, the rent set may include an upwards tolerance – "Rent Flexibility" – of
- if the accommodation is supported housing, 10% of formula rent; or
- if the accommodation is not supported housing, 5% of formula rent.

11.8. At this point we do not use Rent Flexibility opportunities.

[2] Excludes properties let to clients with Learning Difficulties for which costs are recovered.

Service Charges Review

11.9. In preparation for its 2023/24 rent review and budget setting process, Hull City Council (the Council) commissioned HQN to undertake a review of its current approach to setting and recovering service charges from tenants and leaseholders to ensure it is robust, transparent, and compliant with legal and regulatory standards.

11.10. The review was undertaken by HQN associates Mark Henderson and Jackie Dickins between September and November 2022. They carried out a comprehensive document review which included examining leases and tenancy agreements, as well as costs and levels of service charges currently being charged by the Council. This involved a detailed analysis of spreadsheets relating to costs and charges for caretaking, communal cleaning, communal electricity, sheltered schemes and leaseholder charges. They had meetings and interviews with 21 key officers from the Council as well as with five leaseholders and a focus group involving 11 tenants.

> *Overall, we found that the Council's approach to service charges to be comprehensive and in accordance with legal and regulatory standards and best practice within the sector. HQN is consequently able to provide assurances that, based on the evidence we saw, the Council's approach will withstand scrutiny from elected members and residents.*

11.11. Consultation on the outcome of this review took place with over 70 tenants and leaseholders on 30th of January 2023.

Service Charges

11.12. Increases in service charges have been mainly restricted to 7%, with 10% increases for communal electricity charges to reflect significantly increasing costs. This means that there have opened up substantial gaps in the levels of income and the cost of providing those services.

- Caretaking & concierge, where we currently under recover costs by 13%. This service sees cost increases driven by increases in the National Living Wage.

- Communal Electricity, where we currently under recover costs by 57%. There have been significant increases in electricity costs over the last year with significant increases expected in 23/24 compounding the problem.

Garage Rents

11.13. Despite the freezing of garage rents for a number of years, and selective demolitions, the number of empty garages is continuing to increase with just over 50% (up from 47% this time last year) of garages vacant at present. The programme assumes the ongoing demolition of unviable garage blocks and improvement of the remaining garages, with a capital budget set aside to address these issues.

11.14. Rents are set to rise by £1.00 per week. Low demand for garages, however, seems to be caused by a more fundamental issue than rent levels. Our garages are typically too small for modern cars, are poorly lit and many are separate from residential blocks.

<u>Benefits</u>

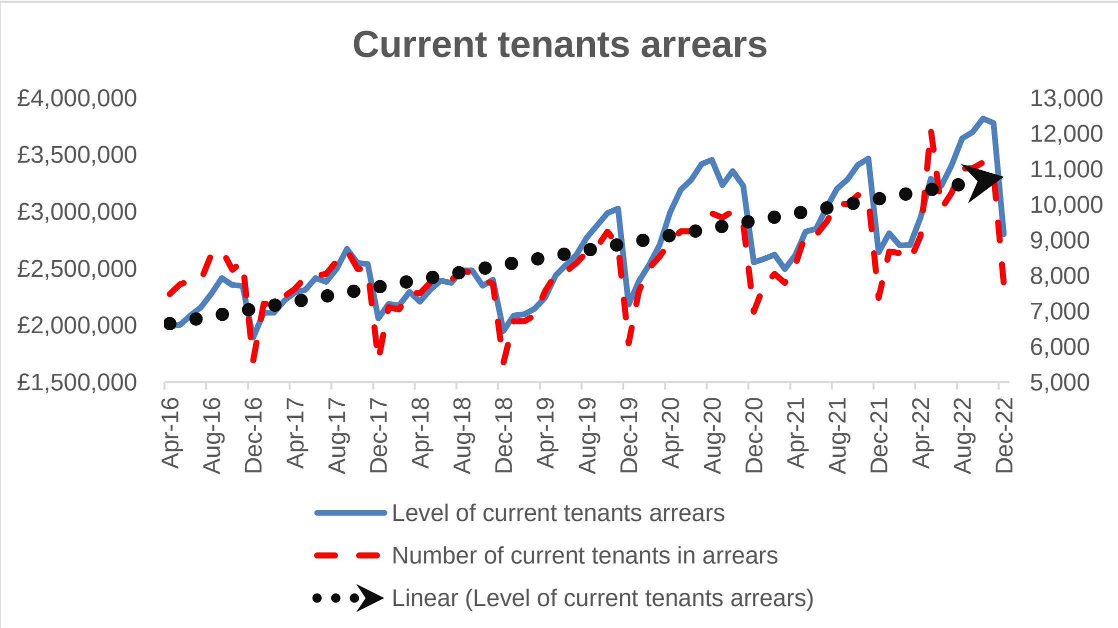
11.15. For the first time since its introduction, the benefit cap will be raised by 10.1%, in line with September CPI. The cap will be raised from £20,000 to £22,020 for families nationally, whilst for single adults it will be raised from £13,400 to £14,753 nationally.

11.16. Benefits generally were also uprated by 10.1% in line with September CPI.

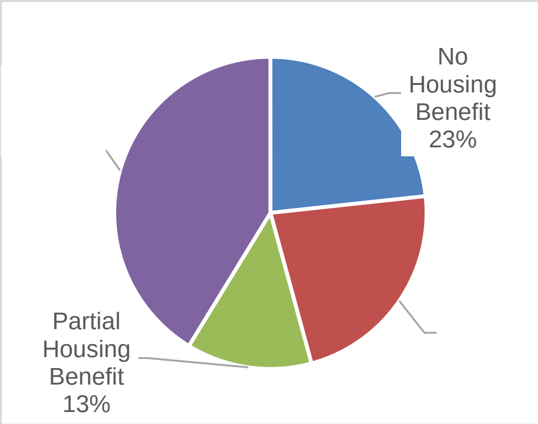
11.17. Additionally, the government's plans to create a new housing element of Pension Credit to replace pensioner Housing Benefit are now intended to take effect in 2028-29. Eligible pensioners will continue to receive Housing Benefit.

<u>Arrears & bad debts</u>

11.18. Arrears levels continue to increase as shown below



11.19. This is common across local authorities and is especially influenced by the number of tenants on Universal Credit where arrears levels are twice those of other working age tenants. Universal Credit remains a significant risk to the HRA.




11.20. We have seen significant increases in the number of tenants on Universal Credit with the mix of tenants now as follows. In due course all working age tenants on full or partial housing benefit will be migrated to UC, although this does not apply to those of retirement age. We thus expect that the existing 6,500 tenants in receipt of UC will grow to around 10,000.

Voids

11.21. As can be seen in detail at Appendix 1, section 7(c) the number of voids overall continues to trend downwards. We saw a significant number of voids during and immediately after COVID lockdowns with numbers historically high but the number has decreased from 387 this time last year to 362 this year, with an aim to have this below 300 by the start of the summer.

Support for Tenants

11.22. Where tenants are in financial difficulty then assistance is available via
- the household support fund
- the council's tenancy sustainment officers who are able to assist all tenants with financial problems through sign posting to support, benefits maximisation etc.

11.23. Our Tenancy Support team has worked with over 1500 tenants this year encouraging those who are struggling with heating (& other day to day living costs) to apply for support or signposting to other available services and support where appropriate. Overall £250,000 of direct support is built into our budgets through the Tenancy Support Team budgets and augmenting the Discretionary Housing Fund the council administers.

11.24. We continue to actively support those tenants in need, including where possible supporting victims of Domestic Abuse through our Housing Hub

DOMESTIC ABUSE HOUSING ALLIANCE
ENHANCED ACCREDITATION
Accredited
Expires on: 09/06/25

## 12. Repairs and Maintenance

Changes in R&M

12.1. The budget reflects the third year of the KWL Cost Model with a fixed cost per property and cost per void. Given the impact of Coronavirus the longer-term level of stability and understanding of true costs has not yet taken place. The new KWL contract will, however, require some time to bed down and for prices to find a level of stability.

## 13. Management and Other Costs

HMIS re-procurement

13.1. The new Housing Management system has now been substantially implemented, the solution being a cloud-based product rather than onsite thus eliminating the need to maintain and manage equipment directly. Timely implementation of the system in accordance with our requirements to allow efficiency gains to be driven remains a key risk for the HRA.

*Income management software*

13.2. The Council has also procured NEC's Account Analytics software, a cloud-based software solution which uses algorithms to analyse payment behaviours, aggregate trends, highlight risk and provide predictive intelligence.

*Other modules*

13.3. As set out in section 8 the Council is also implementing a number of other modules and Apps in particular:

- Engage
- Document Management
- Asset Management

Stock Appraisal

13.4. Work on reviewing stock types continues. In light of the various policy changes and to ensure the viability of the HRA going forward, we have adopted a much more rigorous approach to assessment of our current stock's financial performance than previously has been the case. This includes monitoring performance across the stock to identify where groups of properties are already or are likely to become unsustainable. There is now a 2-stage annual process. Stage 1 is a high level of assessment of 380 'beacon' property groups covering all stock. A beacon group is defined by the type size and location of a group of properties.

13.5. Stage 1 aims to identify poorly performing groups of properties by using a range of existing data. These property groups identified as underperforming on a range of indicators, are then subject to a more in-depth 2nd stage full option appraisal to look in detail at the issues affecting demand for these properties and making recommendations to resolve them and ultimately reducing pressures on the HRA. A focus on poorly performing assets on the basis of their Net Present Value (“NPV”) and other key sustainability indicators will ensure limited resources are allocated in a way that represents value for money and also improves resident satisfaction. It will also ensure that failing assets are addressed at the earliest opportunity.

13.6. The stage 1 analysis is based mainly on historical data which means performance projections may be influenced by factors that no longer exist. For example where recent improvements have taken place to properties improved, void rates and repairs will not be reflected in current projections. As a result stage 1 can only be taken as a high-level indicator of a group’s performance and stage 2 will examine underlying data in more detail to build up an accurate picture of performance. Trend information will continue to be built up as the whole stock appraisal is built into the annual HRA budget process.

Staffing

13.7. As outlined in section 7.2 the Social Housing (Regulation) Bill includes clauses that makes it a legal requirement for landlords to ensure have the right skills, experience, and knowledge to deliver a high-quality service to residents The new competency standards are expected to be drawn up and finalised by the English regulator. This may have longer term implications in terms of training budgets &/or the need for certain staff to be professionally qualified.

## 14. Capital Financing

14.1. Cost of capital financing reflects the following elements:

- debt management expenses which are a contribution towards the overall Council cost of managing the debt portfolio;

- interest payable on existing debt and debt premia on debt paid early;

- depreciation both on Dwellings and other properties. Unlike the general fund these costs are charged direct to the HRA but can be used in effect to finance capital expenditure (Major Repairs Allowance or “MRA”); and

- repayment of debt which, consistent with prior years and the general fund, is repaid when it falls due with borrowing back only undertaken when there is a need to finance capital expenditure or to protect reserves in the short term. This has the benefit of saving interest in the short term.

Borrowing in advance

14.2. To take advantage of historically low interest rates the Council borrowed £135m in advance – £75m of this is HRA and repayable between 2069/70 & 2071/72 at an average interest rate of 1.39%. The programme allows for this to be used initially, hence the substantial short-term increase in Major Repairs Reserve balances. In addition investment returns presently exceed the average cost of borrowing this amount.

## 15. HRA Capital Programme

15.1. The proposed capital budget is set out below:

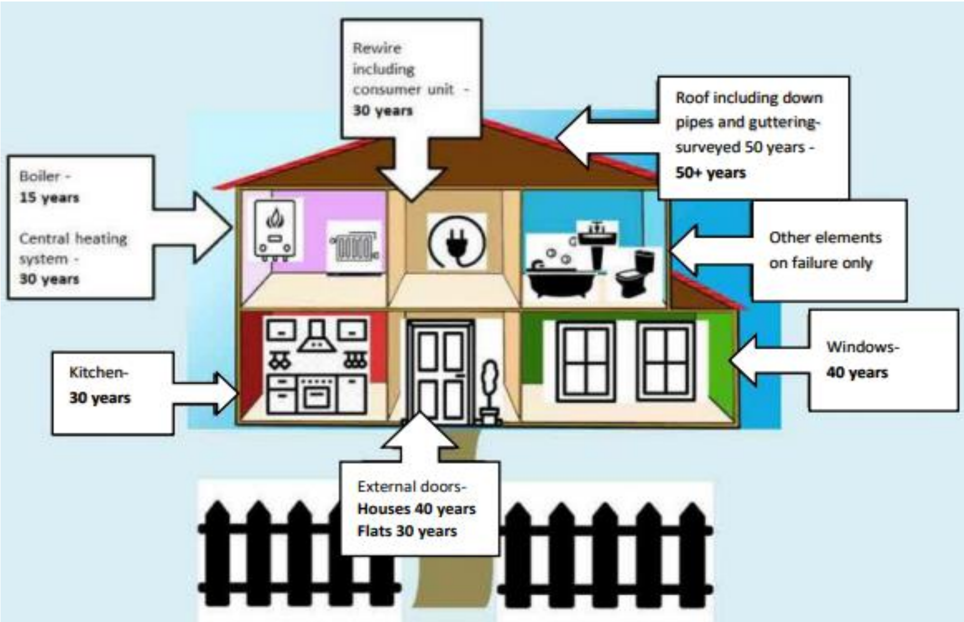
| | Current Budget 2022/23 | Proposed Budget 2023/24 | change | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | %age |
| **Capital Spend** | | | | |
| Maintaining Decent Homes | 11,345 | 12,271 | 926 | 8.2% |
| Mechanical & electrical | 6,077 | 8,826 | 2,749 | 45.2% |
| KWL overheads | 2,658 | 2,850 | 192 | 7.2% |
| Others (inc. client costs) | 2,085 | 2,372 | 287 | 13.8% |
| Fire Protection Works & other Health & Safety work | 5,453 | 3,544 | (1,909) | -35.0% |
| Council House Adaptations | 2,752 | 3,357 | 605 | 22.0% |
| Empty Properties | 1,780 | 2,101 | 321 | 18.0% |
| Ferensway House | 0 | 0 | 0 | |
| Regeneration | 795 | 718 | (77) | -9.6% |
| **Base Programme** | 32,945 | 36,039 | 3,094 | 9.4% |
| Cladding | 13,955 | 19,021 | 5,066 | 36.3% |
| New build | 14,307 | 20,462 | 6,155 | 43.0% |
| RTB grants | 278 | 8 | (270) | -97.2% |
| **TOTAL EXPENDITURE** | 61,485 | 75,530 | 14,045 | 22.8% |
| Over-programming | 0 | (20,000) | (20,000) | |
| **TOTAL BUDGETED EXPENDITURE** | 61,485 | 55,530 | (5,955) | -9.7% |

15.2. The budget assumes a level of over-programming in the next two years reflecting historic levels of delivery.

15.3. There are significant schemes including New Build where achievement of Planning Permission, for example, can have a material impact upon the deliverability of scheme spend in the short term. Over-programming is expected to be recovered in the subsequent 5 years for budgetary / capital financing purposes but the target for delivery by scheme remains the gross number.

Hull Standard

15.4. The graphic below outlines the key component lives under the Hull Standard:




15.5. More details are included in the Asset Management Strategy appended to this report.

Investment Priorities

15.6. The Asset management strategy sets out a summary of Hulls Housing Investment Priorities – 2023 to 2027 - which are shown below:

| Strategic Priority | Investment Priority | Comments |
|---|---|---|
| **Quality Homes** | 1.Health and Safety (Compliance) | Delivering residents safety by continuing to address identified health and safety issues and removing identified Category 1 hazards and disrepair. This includes high rise remedial works following the Grenfell fire disaster and any other Remedial works identified under Building Safety legislation. |
| **Quality Homes** | 2.Maintaining Decency (Compliance) | Maintaining stock to the Decent Homes Standard. Funding allows for the continuation of the current delivery standard and will be reviewed following the completion of the Government review of DHS for social housing. |
| **Neighbourhood Renewal** | 3.Support for existing Renewal Areas (Approved area action) | To complete approved demolition and new build programmes in existing Renewal/Priority Areas |
| **Sustainable Homes (Energy Efficiency/ Climate Change)** | 4.Energy Efficiency Improvements (Supporting Government targets to carbon zero) | To continue with the ECO External Cladding Programme to all low rise non-traditional homes and progress schemes that can lever in energy funding |

| Strategic Priority | Investment Priority | Comments |
|---|---|---|
| | | To target other energy efficiency improvements to continue to improve the SAP ratings of all our homes to band C or above |
| **Quality Homes/ Enabling Access** | 5.Disabled Adaptations and Improvements | Continue to fund adaptations to support tenants to remain independent in line with agreed policy. |
| **Quality Homes (ensuring sustainability of stock) /Enabling Access** | 6.Remodelling / Sustainability Schemes Improvements | Maintaining a healthy HRA by targeted schemes to address sustainability issues. Schemes may include remodelling, environmental improvements or demolition. |
| **Quality Homes/ Enabling Access** | 7.New build (subject to affordability/grant funding) | Increase the supply of new affordable Council homes and in particular elderly persons housing through new build subject to available funding |
| **Neighbourhood Renewal/ Enabling Access (tackling long term empties)** | 8.Empty Homes Programme | To continue support for the Empty Homes Programme where financially viable using RTB receipts and direct capital funding |
| **Quality Homes** | 9.Planned Renewals above Current Decent Homes | Planned renewals that meets raising tenant expectations and that people want to live in (Decent Homes +) subject to available funding |

Maintaining Decent Homes/ Mechanical & Electrical

15.7. Costs in relation to maintaining decent homes standard going forward have been included in line with previous years. This maintains properties in a reasonable state of repair and to the minimum level required of the decent homes standard but does not necessarily meet aspirational standards going forward. Work is included on a planned basis reflecting our understanding of the condition of the stock.

15.8. As part of the changes driven through the change management board we are planning to increase where possible the number of surveys undertaken on our properties to produce more planned programmes – this will take a number of years. For example a target number of surveys would be 20% of the stock (4,800) a year, then the whole exercise will take 5 years. In addition more routine tenancy visits and the use of tools such as Photobook to capture information and store images should allow a more holistic view of our properties to be captured.

15.9. The recommendations from the review report also required that we “reconsider the Hull Investment Standard to ensure maximum investment in the asset and minimum repair requirements”. To respond to those requirements we have considered a number of levels of investment planning, for example including bathrooms/showers as standard. As detailed earlier keeping to our existing Hull standard which provides a slightly higher standard than the Governments decent homes standard is affordable in the short to medium term, however modelling higher standards results in the HRA going into deficit at a much earlier. Also we need to be mindful of any Grenfell related safety implications emerging from the Hackitt Report[x] or additional environmental costs.

15.10. A report to cabinet due to be presented on the 27th of February 2023 (Great Thornton St high rise residential blocks - low carbon district heating scheme) will seek cabinet authorisation on the procurement options of the design & build Great Thornton Street (GTS) Low Carbon Heating Scheme. £7.5m has been included in the overall budget over the medium term to replace the existing direct electric heating and domestic hot water systems with heat pumps. in due course this will need to be connectible to the wider city centre district heat project.

Fire Protection Works

15.11. An early extensive review of the safety and integrity of Hull City Council high rise blocks following the Grenfell Tower fire in June 2017 established no fundamental defects within the stock. An interim strategy was agreed with Humberside Fire and Rescue to address all remedial actions, including precautionary cladding and bin chute works which were completed during 2018-19.

15.12. We have obligations under Regulatory Reform (Fire Safety) Order 2005 to carry out Fire Risk Assessments (FRA’s) in all communal areas up to and including flat entrance doors. We undertake suitable FRA’s following changes to a building or following an incident which are reviewed on an annual basis. Identified actions are included in our Fire Action Plan and delivered as required. Alongside the FRA process there is an inspection and servicing programme for all our fire safety related equipment. This includes emergency lighting, fire alarms, and fire extinguishers.

Council House Adaptations

15.13. On 22nd January 2018 Cabinet approved a revised Allocations Policy covering Adaptations which came into force on 1st October 2018. This Policy means that Council can fairly and cost effectively manage housing stock to meet the needs of individuals who are assessed as needing a tenancy in an adapted property, while at the same time avoiding unnecessary strain on the Housing Revenue Account.

15.14. In addition this budget will also be used to assist with any adaptations that may be required to assist families fostering children – this is mainly expected to be around adapting properties to create additional bedroom space and to cover perhaps 4 properties each year. Costs over and above those recoverable through increased rent will be met by C&YPS.

Cladding

15.15. The budget contains the final year of the Fortem contract and furthermore assumes a programme to pick up the RatTrad properties against which a bid for wave 2 of the Social Housing Decarbonisation Fund has been submitted[xi].

15.16. This would them mean that most non-traditional build properties had been clad.

New Build Programme

15.17. The HRA Budget includes a programme of new build as set out in the table below.

| | **2023 / 2024** | **2024 / 2025** | **2025 / 2026** | **2026 / 2027** | **2027 / 2028** | **2028 / 2029** | **2029 / 2030** | **7 year total** |
|---|---|---|---|---|---|---|---|---|
| Orchard Park | 30 | 103 | - | - | - | - | - | 133 |
| Boothferry & Henson | - | - | - | 60 | 60 | 60 | - | 180 |
| Preston Road | 24 | 15 | - | - | - | - | - | 39 |
| LA Housing Fund | 18 | - | - | - | - | - | - | 18 |
| Small sites | - | 18 | 55 | - | - | - | - | 73 |
| Indicative new build / Turnkeys / Empties brought back into use | - | 30 | 50 | 50 | 50 | 50 | 50 | 280 |
| | 72 | 166 | 105 | 110 | 110 | 110 | 50 | 723 |

15.18. Financial viability is a key challenge in Hull, with a number of sites presenting significant viability challenges. This is predominantly as a result of low property values and rents compared to other areas of the Country alongside very high build costs. Build costs are high as a result of poor ground conditions which are found in most areas of the city, which often require a deep piled foundation for new homes that comes at a much higher cost. Alongside this are significant costs for mitigating flood risk as a result of the geography and topography of the city. In addition to site specific constraints, the current economic climate and inflationary pressure has seen the cost of delivering new homes rise sharply over the last 12 months. Looking to the future, additional requirements to ensure that homes emit less carbon into the environment will also place added pressure on build costs.

15.19. An update on the programme was reported to Cabinet[xii] in December 2022 and included the following significant sites:

*Dane Park & Isledane*

15.20. The schemes at Dane Park (99) and Isledane (34) both now have full planning consent for the delivery of 133 new affordable homes in total. The intention is now to deliver these two schemes together with the Council undertaking a re-procurement exercise to test the viability and costs using the EN: Procure New Build Framework to design and, subject to viability, build new Council homes.

A funding bid will be submitted under Homes England's Affordable Homes Programme to support the delivery of these schemes

*Boothferry*

15.21. Following demolition of the 3 multi storey tower blocks (Millport, Torpoint and Woolwich Drive).at Boothferry, the intention is to explore the procurement of a lead developer partner to design and deliver new homes across a number of sites to be agreed, including these two. The focus of any such appointment would be to primarily seek to deliver affordable homes as a mix of affordable and social rent, intermediate home ownership such as shared ownership or rent to buy and homes for market sale. Any such development agreement may seek to set out that a minimum number of homes for Council rent are delivered, subject to viability. The benefits of this approach would see a long-term strategic partner who the Council can draw upon for technical expertise and design, with clear standards set out that are expected to be met in terms of affordable housing delivery. A longer-term developer partner will also provide the ability to innovate and explore the delivery of homes through modern methods of construction alongside more traditional forms of construction.

*Henson Villas*

15.22. Redevelopment of Henson Villas would also be included in the procurement of a lead developer partner as explained above.

*Local Authority Housing Fund*

15.23. In December 2022, the Government introduced a capital fund of £500m to support those Local Authorities facing the greatest challenges in providing move on and settled accommodation to support refugees from Ukraine and Afghanistan.

15.24. Provisional allocations for Hull have been

| Scheme | 2022/23 | 2023/24 | Total | Properties to be provided (min) | Comments |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | | |
| Main element | 261 | 609 | 871 | 15 | To provide homes at a grant of 40% of cost plus £20k per property |
| Bridging element | 105 | 245 | 350 | 3 | To provide 4+ bed homes to be allocated to households currently residing in bridging accommodation. at a grant of 50% of cost plus £20k per property.<br><br>*3 properties have been identified for acquisition that would meet this target.* |
| | 366 | 854 | 1,219 | | |

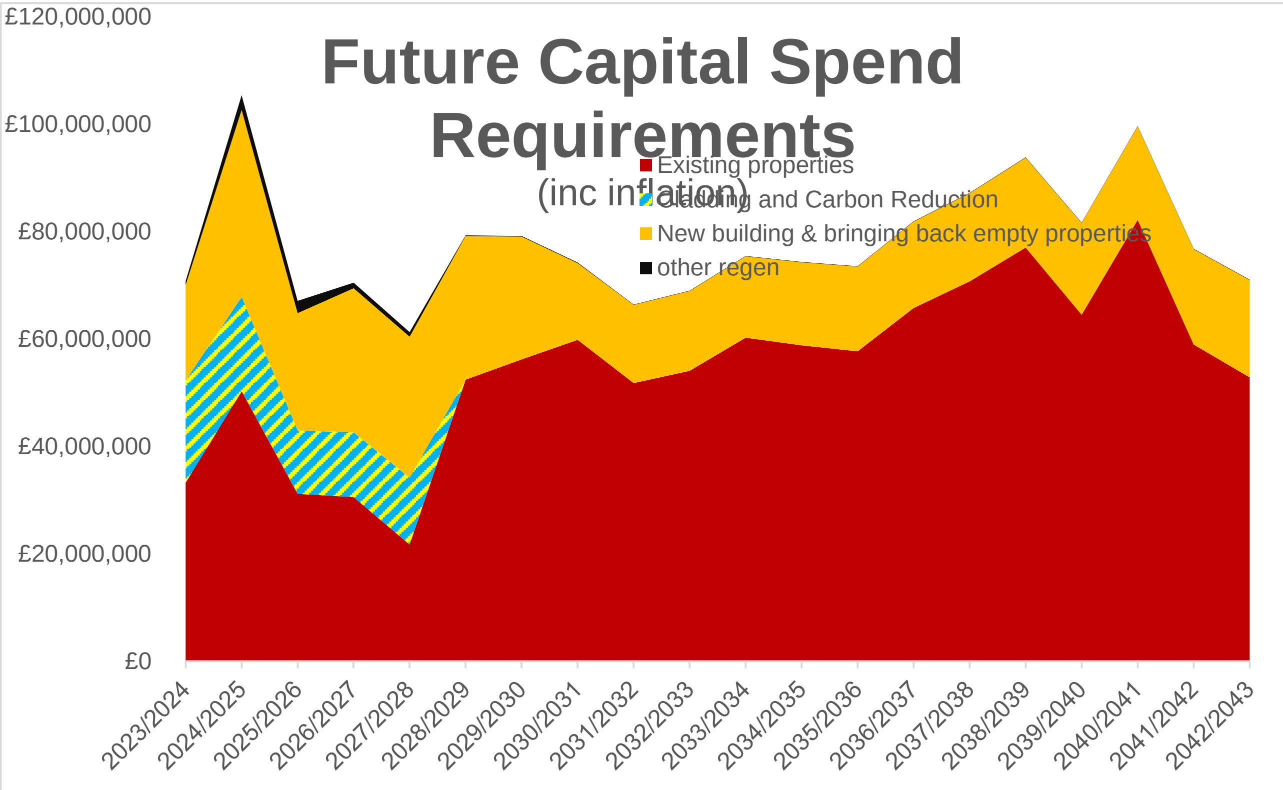
15.25. Properties delivered under these schemes by the Council would be added to HRA stock.

Right to Buy Receipts

15.26. Cabinet approved a proposal to use surplus Right to Buy receipts that would otherwise have had to be returned to DLUHC to support other social housing providers build properties in the City. To be eligible providers would have to apply to be on our framework (all Registered Providers being deemed to be on automatically) and would be free to submit proposals each quarter. There are no new extant proposals in 2023/2024 at present but we will respond to bids as they emerge with proposals that have other benefits to the Council being prioritised (e.g. savings on social care). Receipts available would be used on our new build first and only made available to others were they otherwise to be repaid to DLUHC.

Future Capital Spend

15.27. The graph below shows the need to spend on capital over future years. As members will be aware the locus of the increased spend occurs at the point of replacement of, mainly, kitchens originally installed under the Decent Homes programme at the commencement of the millennium.

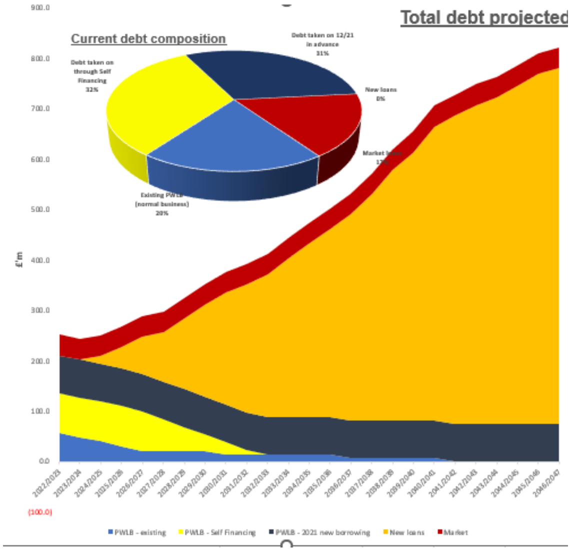



## 16. Treasury Management, Borrowing & Prudential indicators

16.1. The Treasury Management Strategy for the HRA remains unaltered & congruent with the General Fund position – that is only to borrow when needed and in the meantime to pay back debt as it otherwise falls due.

16.2. Given the overall position of the HRA over the next 10 years it is expected that some £50m of borrowing which would otherwise be repaid will be replaced with new borrowing. This will be subject to assessment each year.

16.3. To take advantage of historically low interest rates the Council has borrowed £135m in advance – £75m of this is HRA and repayable between 2069/70 & 2071/72 at an average interest rate of 1.39%. Total expected borrowing is now projected to be as shown in the chart.




16.4. Further details on borrowing can be found at appendix 1, section 6.

16.5. The HRA has also developed a number of Prudential Indicators – essentially a measure of whether we can afford to borrow more or need to reduce debt levels.

16.6. The four measures picked have been the interest cover ratio, which looks at the amount of interest being paid compared to direct operating surpluses each year compared to (a) the housing association sector where this measure is a typical metric and a target measure of 1.5 for the Council, the operating margin, the amount rent and other income covers costs other than capital financing (20% being an appropriate Industry average), the average debt per property and debt compared to turnover. Whilst these measures show a currently healthy position these deteriorate in future years.

16.7. Further details can be found at appendix 1, section 4.

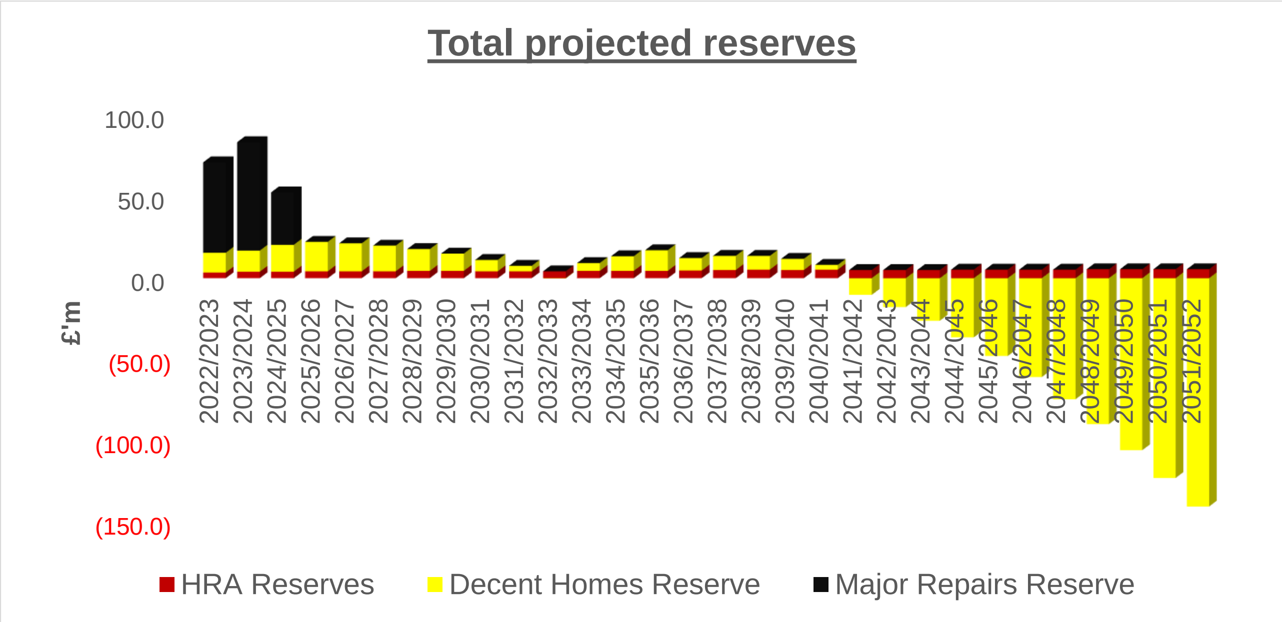
## 17. HRA Reserves

17.1. Reserves are held for the following primary reasons:

- To cover against the inherent risks in the business such as non-collection of rent and a sudden and increased need to spend (responding to Grenfell being a case in point).

- To fund the future need to spend – in effect to ensure that we can continue to maintain and repair our properties over the coming years, especially needed given the cyclical nature of the spend.

17.2. The graph below shows the projected HRA reserves over the next 40 years.




17.3. Members will note on current trajectory the HRA reserves remains positive until 2041/42 but this assumes no change in (for example) Government Rent Policy that impedes our ability to increase rents and that we are able to hold expenditure increases to no more than inflation. It is not legally permissible[xiii] to have negative reserves and therefore there is a requirement to take further measures that either increase income or reduce costs.

17.4. The position has deteriorated since last financial year for the following principal reasons

- The rent cap at 7% is lower than inflation on underlying expenditure
- Th significant impact of disrepair claims over the last 15 months

17.5. The HRA currently operates in an environment with significant change, not least in relation to Universal Credit, alongside any further changes to government or local policy.

17.6. **These figures do not reflect the implications of achieving Carbon net zero and thus are likely to deteriorate significantly should this not be fully funded.**

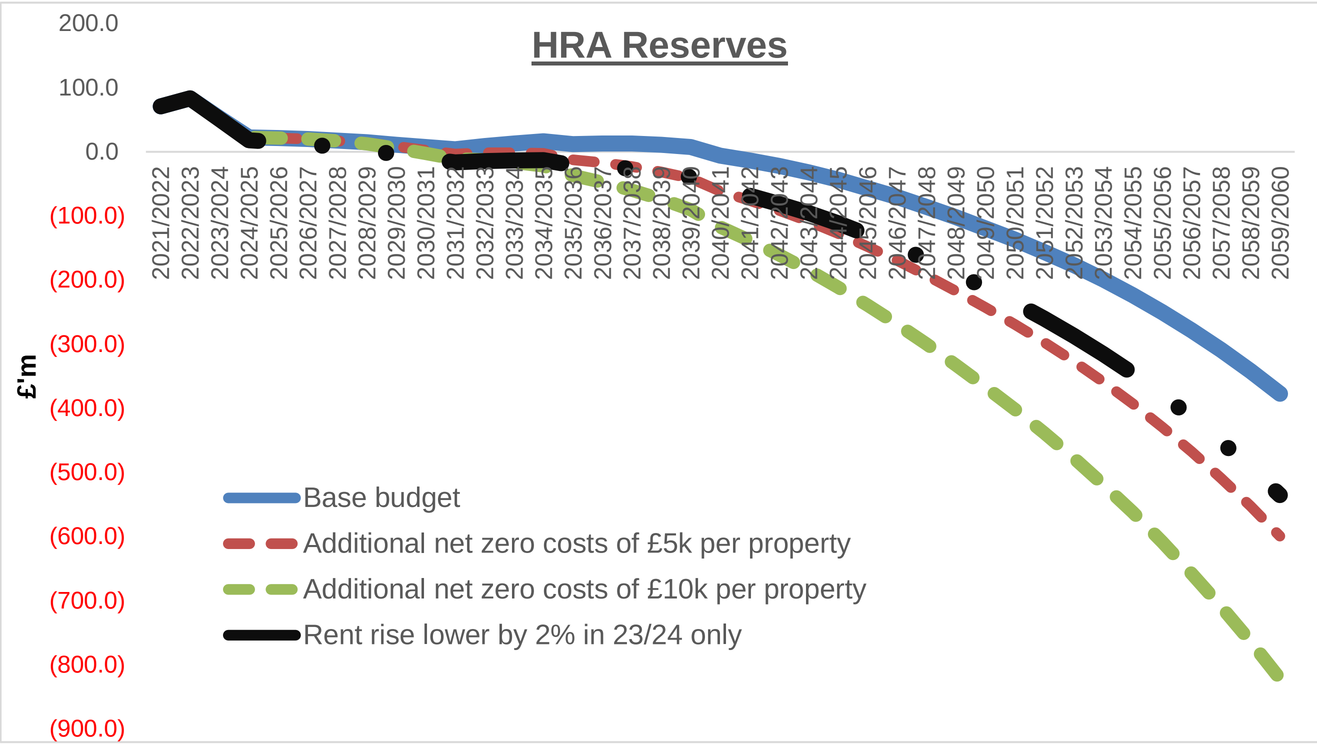
## 18. Sensitivities

18.1. The following sensitivities have been modelled alongside the base case to understand the potential impacts

- Rent rises were restricted to 5% in 2023/24, but remain as per the base assumptions for future years.
- Carbon Net Zero costs of £5k per property (net of grant)
- Carbon Net Zero costs of £10k per property (net of grant)

18.2. The impact on reserves is shown in the table & graph below.

| Reserves | 2023/2024 | 2028/2029 | 2033/2034 | 2038/2039 | 2043/2044 | 2048/2049 | 2053/2054 | 2058/2059 |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Base Budget | 52,507 | 14,951 | 13,214 | 11,546 | (31,424) | (100,801) | (198,043) | (340,198) |
| Rent rise lower by 2% in 23/24 only | 49,056 | (7,158) | (33,002) | (63,859) | (141,901) | (253,241) | (400,474) | (602,029) |
| Additional net zero costs of £5k per property | 52,507 | 13,773 | (1,350) | (30,893) | (107,693) | (215,910) | (357,742) | (551,089) |
| Additional net zero costs of £10k per property | 52,507 | 12,494 | (16,009) | (73,422) | (184,046) | (331,093) | (517,506) | (762,034) |




18.3. As can be seen from the table below there are also material impacts on the level of debt the HRA would be carrying in the final sensitivity

| Total debt | 2023/2024 | 2028/2029 | 2033/2034 | 2038/2039 | 2043/2044 | 2048/2049 | 2053/2054 | 2058/2059 |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Base Budget | 235,321 | 326,559 | 398,968 | 554,752 | 688,190 | 746,796 | 811,396 | 928,449 |
| Rent rise lower by 2% in 23/24 only | 235,321 | 327,559 | 399,968 | 555,752 | 689,190 | 747,796 | 812,396 | 929,449 |
| Additional net zero costs of £5k per property | 235,321 | 365,357 | 505,663 | 689,947 | 823,385 | 881,991 | 946,590 | 1,063,643 |
| Additional net zero costs of | 235,321 | 404,056 | 612,257 | 825,041 | 958,479 | 1,017,085 | 1,081,685 | 1,198,738 |

| Total debt | 2023/2024 | 2028/2029 | 2033/2034 | 2038/2039 | 2043/2044 | 2048/2049 | 2053/2054 | 2058/2059 |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| £10k per property | | | | | | | | |

## 19. Significant Risks

General inflation

19.1. Last year we reported that CPI was 5.4% per annum [December 2021] and observed that that was the highest CPI 12-month inflation rate in the National Statistic data series, which began in January 1997, and it was last higher in the historical modelled data series in March 1992, when it stood at 7.1%. Since then CPI has increased even further with September 2022 being 10.1% (the benchmark against which rents are set). The level increased 11.1% in October and has since returned to 10.1% by January 2023.

19.2. A significant component of this is around utilities which has a significant knock-on effect on the HRA budget - especially electricity costs.

Universal Credit

19.3. Universal Credit poses one of the most significant risks in terms of the cost of income collection as well as the actual collection rates. In time, we expect a total of perhaps 10,000 tenants to be responsible for paying rent directly and the number of existing tenants on UC already experience significantly higher than average levels of arrears.

19.4. There are therefore significant risks in relation to

- Income collection rates
- The additional amount of activity needed to collect income and where possible sustain tenancies
- The possibility of significantly increased eviction rates and the possibility that tenants will abandon properties in advance with the potential for significantly increased churn and void numbers. Some properties may also become less popular and this may increase issues around property sustainability in the medium to long term.

Climate Change

19.5. Costs of Net Zero are not included within the existing budget but it is clear that there will be a need to adapt & improve our existing properties and respond to the degasification agenda. There is an assumption at present that the costs – or at least the great majority of costs – would be dealt with through Government grants, although this may be on a different timeline to Hull's declared 2030 target.

Disrepair

19.6. We have already seen a noticeable (indeed exponential) increase in the number of disrepair claims (essentially a claim that the property needs repair for it to be safe and suitable for occupation), with The Homes (fit for human habitation) Act coming into force for existing tenancies in March 2020. Changes imposed through the Building Safety Act and the changes that have followed on post Grenfell have added to the need to ensure properties remain in good condition & free from hazards.

19.7. As previously stated in this report, our property knowledge level is not as developed as it could be. Additional surveys will address this deficiency.

Operational

19.8. There are a number of complex capital schemes within the programme, not least the cladding scheme, which include significant operational risks. In the case of cladding this includes the potential need to decant both tenants and adjoining residents where there is a risk of asbestos being disturbed.

## 20. Equalities

20.1. A full Equalities Impact Assessment has not been carried out at this stage.

20.2. The recommendations within this report do not disproportionately impact on any group with protected characteristics.

20.3. Consultations have taken place with tenants at the end of January as set out in section 5.

20.4. The rent increases have been aligned with the national rent cap. The governments view was that this struck a balance between protection of the most vulnerable households and the financial sustainability of the “national” HRA. It should be noted that for those tenants on benefits then the increase will be covered and for those tenants who are of pensionable age then the state pension will increase by 10.1% as opposed to the 7% rent rise.

| ***Protected Group*** | | | |
|---|---|---|---|
| Age | Working age people are the most prominent age group of all current council tenants.<br><br>The age profile of tenants is: | Age range<br>16-17<br>18-25<br>26-35<br>36-45<br>46-55<br>56-65<br>>65<br>No information | <br>0.04%<br>4.53%<br>16.19%<br>19.03%<br>18.59%<br>18.14%<br>23.40%<br>0.08% |

| ***Protected Group*** | |
|---|---|
| Disability | 17.5% of households declare that there is someone with a disability living in the household, with 39.7% indicating no-one is disabled. There is no data on 42.8% of households.<br><br>Disabled people in 2019 were less likely to own their own home, with just 42.4% owning their own home, compared with 53.2% of non-disabled people. One-quarter (24.7%) of disabled people in 2019 rented social housing, compared with just 8.2% of non-disabled people. Young disabled people in 2019 (ages 16 to 24 years) were less likely to live with their parents (67.6%) than young non-disabled people (73.1%), but this pattern reverses for ages 25 to 54 years. Disabled people aged 16 to 64 years (in 2019) with severe or specific learning difficulties were the least likely to own their own home (of all main impairment types), with just 4.1% owning their own home, compared with 42.4% of disabled people overall in that age group.<br><br>https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/disability/bulletins/disabilityandhousinguk/2019 |
| Gender (Sex) | Females are the largest gender group among council tenants with 54% tenants identifying as female. |
| Gender reassignment | As above. |
| Marriage and civil partnership | As above. |
| Pregnancy and maternity | As above. |
| Race | The council recognises that there is the potential for council tenants for whom English is not a first language to have difficulty in interacting with the Council. This can be mitigated by ensuring that translation and interpretation services are made available and promoted. |
| Religion and belief including non-belief | As above. |
| Sexual orientation | As above. |

20.5. Where tenants are in financial difficulty then assistance is available via

- the household support fund
- the council's tenancy sustainment officers who are able to assist all tenants with financial problems through sign posting to support, benefits maximisation etc.

20.6. The full range of support is available at hull.gov.uk/costofliving

## 21. Finance comments

21.1. This report provides a comprehensive overview of the HRA Budget for the period 2023/24 and beyond.

21.2. Housing faces an agglomeration of pressures over the coming years, and in particular recent spikes in inflation have added significantly to the cost base in excess of the rent rise for the forthcoming year. in addition the cost-of-living crisis is likely to lead to a deterioration in our longer-term rent collection rates, although performance is holding up following introduction of new software from NEC.

21.3. Rent rises have been capped at 7% in respect of 2023/24 which is significantly below the 11.1% that the rent formula would have otherwise implied. 2024/25 is the final year of the governments rent formula whereby rents are typically allowed to rise by CPI plus 1%. Government rent policy beyond this date is as yet unknown and rents are assumed in the budget to rise by CPI. We await government publishing proposals on what it intends to do for these future years but we hope that this might include an element of catch up on the rent loss in the current year.

21.4. The long-term fiscal health of the HRA he is highly dependent upon rent increases taking place that at least match the level of inflation.

21.5. Previous sensible fiscal management means that there is a sufficient level of reserves and borrowing capacity to allow the HRA to see through the next few years but significant changes in the underlying budget must still be implemented if the HRA is to remain fiscally solvent over the medium to long term, particularly in order to accommodate the costs of carbon net zero, which are at present unknown. elements of this spend will have already been incurred in relation to our cladding programme and there will be savings in relation to assumed costs of replacing boilers for example. in the short term however the cost of heat pumps is likely to be higher than boiler replacements. wherever it is possible funding from central government will be sought for example through the social housing decarbonization fund or its successors. this remains a significant industry wide problem and therefore we expect there to be government assistance to at least mitigate some of the costs.

21.6. The service has successfully implemented a new computer system over the last few years that will allow for cost savings to be realised as we ever increasingly digitalise the service two tenants. this also assumes that tenants are able to interact with the HRA using modern technology that will reduce call handling costs for example.

21.7. Overall there remain significant challenges in dealing with some of our less financially sound stock. Progress has been made recently with the decision to demolish the Boothferry flats and replace with modern new build properties. there will continue to be a challenge particularly in relation to our non-traditional build stock.

21.8. As indicated in the service charges section there are a number of services we provide where whilst we aim to recover the costs, we are significantly adrift particularly after recent rises in utility's charges. It is hoped that over the long term we can reduce this gap. [GS]

## 22. Legal comments

22.1. Section 74 of the Local Government and Housing Act 1989 requires a local housing authority to maintain a Housing Revenue Account in accordance with proper practices. Section 76 of the Act places a duty on the Authority to prevent a debit balance on the Housing Revenue Account. The proposals in this report fulfil those requirements and therefore the recommendations in the report are supported.

22.2. The legal implications of factors which will materially impact upon the Housing Service and in turn the Housing Revenue Account are discussed within the report. Rent arrears increases that are directly associated with the introduction of Universal Credit will lead to an increase in possession proceedings and, in the worst case, evictions from Council tenancies, which will also have a financial impact in terms of court fees and costs. Evictions may also influence the number of homelessness applications received by the Council, which will in turn impact upon the General Fund.

22.3. There has continued to be a significant increase in housing disrepair claims since January 2022, with far more claims now being issued in court which inevitably results in increased compensation amounts and significant increases in the cost both of legal work and where the Council has to pay claimants costs if liability is found to have been incurred. There is no current indication that this will not continue. As the Council is the defendant, there is no option but to respond to the claims and so the increased expenditure cannot be avoided.

22.4. The report discusses the financial risks to the HRA posed by the implementation of the carbon neutral agenda. The statutory repairing obligations of the Council under Section 11 of the Landlord and Tenant Act 1985 require the installations in the dwelling-house for space heating and heating water to be kept in repair and proper working order. This could have a significant potential financial impact on the HRA if the Council was to be required by law to replace failing systems or those in disrepair in existing properties with more costly energy efficient options. As yet there is no certainty on the level, if any, of central government grants to alleviate such pressure. [CA]

## 23. Human Resources comments

23.1. The content of the report is noted. The vacancy freeze will have an impact on staffing resources which will positively support the budget. The potential impact of regulation on training requirements in future is also noted. Equalities information presented within the report addresses any adverse effects and is noted. KH

## 24. Comments of Overview and Scrutiny

24.1. This report will be considered by Overview and Scrutiny Management Committee at its Budget meeting of Friday, 10 February, 2023. Any recommendations or comments agreed by the Committee will be submitted to Cabinet for consideration alongside the report. Ref: Sc7237 [MK].

## 25. Conclusions

25.1. The budget provides for an extensive investment programme over the medium term while still leaving the HRA with sufficient reserves to operate. However, the impacts of a rent cap this year of 7% which is lower than the underlying level of inflation mean that the point of deficit, should no further action be taken, is brought forward substantially. The government rent settlement which sets rent increases at CPI plus 1% expires at the end of 24/25. Whilst we expect there to be imminent review of rent policy going forward there have been no indications from central government as to what their thinking might be. The budget assumes that rents increase by CPI in subsequent years.

25.2. However, the most significant threat remains the Council's ability to collect income, especially In the light of the cost of living crisis and as the roll out of Universal Credit continues. Post self-financing the only long term monies available to the HRA is the money collected from our tenants in rent and service charges. Protection of this revenue is vital to the continued sustainability of the HRA.

25.3. The challenge of achieving Carbon Net Zero is not yet embedded in the budgets with costs likely in the range of £0.4bn to £0.6bn estimated on present understanding, but a detailed programme has not been worked up so these may change. Whilst we expect there to be some level of central Government funding available it is not clear that this would accommodate the full cost or that the timetables would be congruent with the Council's policy aspiration of achieving Carbon Net Zero by 2030.

25.4. Funding this work within existing resources would prove exceptionally challenging without further efficiencies in extant service provision. A scenario assuming a Council contribution of £10k per property has been included but this is – at best – speculation at this juncture.

25.5. There remains a risk that Government Policy may change that could destabilise the HRA again but the ability to mitigate such changes is greater than it was a few years ago.

**Councillor Mike Ross, Leader of the Council**

Contact Officer – David Bell Tel. 01482 613084

Officer Interests: None

Background Documents: none

**Rent & Service Charge Policy 2023/2024**

Hull City Council aim to set rents at a level that allows us to manage our properties well, to maintain them and to provide appropriate services and amenities for our tenants whilst keeping affordability in mind. We set rents and service charges in line with legislation, Regulation, best practice and our service standards. We aim to fully comply with the Government's Policy Statement on Rents for Social Housing 2018 and the extant Rent Standard as published by the Regulator of Social Housing.

Customers are given at least 4 weeks' notice of changes to their rent and service charges. Changes to rent will normally occur once a year on the first Monday in April. Rent is payable for each week of the year but the rent payable over the whole rent year is apportioned over 50 or 51 weeks (depending on the number of weeks in that particular rent year). This means that there are two weeks per year when customers are not required to pay rent (unless they are in arrears). The 2 weeks when customers are not required to pay will be in December each year and customers are notified of this in writing.

1. Rents

Our properties are generally let on either a Formula Rent or an Affordable Rent.

a. Affordable rent

Local authorities are able to agree with Homes England to convert a proportion of their properties which are being re-let on an affordable rent to help fund the development of new homes. This means that the Council can charge a different rent (which could be higher) than their usual rent charge.

The Council may wish to use affordable rent tenancies where:

- major investment in particular housing stock has been or will be undertaken
- funding for a project requires that the Council use affordable rents.

Where the Council is considering using affordable rents tenancies it will:

- carry out reasonable consultation with the local community on its proposals
- undertake a financial viability test
- set out in a report the reasons for using affordable rents and the benefits the Council expects
- require any decision to adopt the proposed affordable rent scheme to be approved by the Head of Service with responsibility for the management of the Council's housing function in consultation with the Council's Portfolio Holder with responsibility for the Council's housing function.

The maximum rent for an Affordable Rent property, when it is first let to a new tenant, is 80% of the market rate, inclusive of service charges, or the 'social rent rate' (exclusive of service charges), whichever is higher. Each subsequent year, rents will change in line with changes in Formula Rents.

New homes built or those which have undergone major refurbishment schemes will be let at Affordable Rents or Formula Rent, whichever is the higher.

**Rent & Service Charge Policy 2023/2024**

b. Formula Rent

Formula Rents are set based on Government Formulae for each individual property with annual increases in line with CPI + 1% each year. This does not apply to service charges. Whilst actual rent increases are determined by Council each year, rents will never be set at more than Formula Rent. All properties becoming empty will be re-let at Formula Rent. Where any significant structural alterations take place, such as the addition of extra bedrooms, the Formula Rent may be amended to take account of the change.

c. Shared Tenancies

Where properties are let with shared tenancies, rent may be set at not more than the Shared Accommodation Rate of Local Housing Allowance per bedroom.

d. Other Rent Models

The Council may develop other rent models to reflect the changing circumstances, especially in relation to Benefit eligibility.

Where the Council is considering developing a different model it will:

- carry out reasonable consultation with the local community on its proposals
- undertake a financial viability test
- set out in a report the reasons for using affordable rents and the benefits the Council expects
- identify any variations from the Government’s Policy Statement on Rents for Social Housing 2018 (or subsequent updates)
- require any decision to adopt any different rent scheme to be approved by the Head of Service with responsibility for the management of the Council’s housing function in consultation with the Council’s Portfolio Holder with responsibility for the Council’s housing function.

2. Service charges

The Council will have mind to the Government’s Policy Statement on rents for social housing[xiv] which states that *"Service charges are not governed by the same factors as rent. However, registered providers should endeavour to keep increases for service charges within the limit on rent changes, of CPI + 1 percentage point, to help keep charges affordable."*

Service Charges are set to recover the costs of the service provided wherever possible and will change based on changes in costs. Some service charges are currently set below cost and these will be increased over time to align with costs which may require increases in excess of CPI+1% in some years. In additional where underlying costs are rising at a higher rate than CPI+1% then the Council reserves the right to increase Service Charges more in line with costs but will fully disclose the rationale on such occasions. Service charges will never be set at more than the cost of providing that service, including an allowance for management costs.

## Implications Matrix

**This section must be completed and you must ensure that you have fully considered all potential implications**

This matrix provides a simple check list for the things you need to have considered within your report

If there are no implications please state

| | |
|---|---|
| I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc. prior to submitting this report for official comments | Yes |
| I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council | Yes |
| Value for money considerations have been accounted for within the report | Yes |
| The report is approved by the relevant City Manager | Yes |
| I have included any procurement/commercial issues/implications within the report | Yes |
| I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest. | Yes |
| I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report | Yes |
| Any Health and Safety implications are included within the report | Yes |
| Any human rights implications are included within the report | Yes |
| I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report | Yes |
| I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report | Yes |
| I have included information about how this report contributes to the City Plan/ Area priorities within the report | Yes |

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# *Notes & references*

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[i] Council House Build Programme, Cabinet, December 2020
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[ii] https://www.gov.uk/guidance/regulatory-standards-procedures-and-guidance

[iii]
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128222/20231010_CR_implemention_plan.pdf

[iv] A copy of the tenant satisfaction measures can be found at
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[vi] https://www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution

[vii] https://greenhomesgrant.campaign.gov.uk/

[viii]
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932836/Rent_Standard_-_April_2020.pdf

[ix] https://www.gov.uk/government/publications/direction-on-the-rent-standard-from-1-april-2020

[x]
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/707785/Building_a_Safer_Future_-_web.pdf

[xi] See also report to Cabinet, December 2022, Energy Efficiency Funding, Social Housing Decarbonisation Fund Wave 2 and Procurement of Energy Efficiency Retrofit Works

[xii] Council House Build Programme, Cabinet, 19th December 2022

[xiii] Section 76(3) of the Local Government and Housing Act 1989 places a duty on the Authority to prevent a debit balance on the Housing Revenue Account.

[xiv] Policy statement on rents for social housing (publishing.service.gov.uk)