Birmingham City Council
Report to Cabinet
16th January 2024

Subject:	Housing Revenue Account (HRA) Business Plan and Rent Setting 2024/2025
Report of:	Paul Langford, Strategic Director of City Housing
Relevant Cabinet Member:	Cllr Jayne Francis- Cabinet Member - Housing and Homelessness Cllr Brigid Jones- Cabinet Member - Finance and Resources
Relevant O &S Chair(s):	Cllr Deakin- Finance and Resources, Overview and Scrutiny Committee Cllr Idrees- Homes, Overview and Scrutiny Committee
Report author:	Guy Chaundy, Assistant Director of Strategic Enabling (guy.chaundy@birmingham.gov.uk)

Are specific wards affected? If yes, name(s) of ward(s):	☐ Yes	☒ No – All wards affected
Is this a key decision? If relevant, add Forward Plan Reference: 010770/2023	☒ Yes	☐ No
Is the decision eligible for call-in?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, provide exempt information paragraph number or reason if confidential:	☐ Yes	☒ No

1. Executive Summary

1.1 This report seeks approval from Cabinet for the Housing Revenue Account (HRA) Business Plan.

1.2 This report seeks approval from Cabinet for the 2024/2025 rent and service charge setting in both general needs affordable homes and temporary accommodation (TA).

1.3 This report seeks approval to commission a comprehensive review of the Birmingham Municipal Housing Trust (BMHT) model, ensuring the model is providing a value for money service for the citizens of Birmingham. If approved, a separate report will follow with the results of this review.

1.4 In January 2023, Cabinet approved the Housing Strategy 2023-2028. This strategy set out three strategic priorities over the next five years, one of which was 'Neighbourhoods will be enhanced, and the quality of existing homes improved. A commitment of this strategy was to develop a clear investment plan, setting out how the Council will deliver the high-quality homes that residents deserve.

1.5 This plan sets out a strategic long-term investment plan that supports the management, maintenance, and investment in Birmingham City Council homes and other commercial assets where relevant.

1.6 Changes to the regulatory landscape, responding to the challenges post Grenfell and the impact of these decisions on the Decent Homes programme, means the Council have reviewed the investment approach.

1.7 The decisions proposed in this Cabinet report will have a significant impact on the future of the stock portfolio and the quality of our homes over the next 30 years. The proposed investment approach is a step change for the Council.

1.8 The plan sets out planned investment in the Council's existing stock portfolio, as well as investment in direct delivery of new homes; given the nature of the regulatory environment, the Council must invest differently to strike the right balance, making sure residents live in high-quality homes, whilst continuing to contribute to the supply of affordable housing.

1.9 The Council know that is a legal requirement and an absolute necessity that residents live in high-quality, sustainable homes. Residents deserve to live in homes that are safe, warm, and sustainable and the Council have been transparent around the fact that this isn't the experience of all of our residents. This plan prioritises investment in the existing stock portfolio above all else, to make sure the Council is able to genuinely improve the quality of resident's homes, as quickly as possible.

1.10 The plan is developed with the implementation of the Social Housing Regulation Act in mind and the enhanced expectations around compliance with Decent Homes Standards. Intervention from the Housing Ombudsman and Regulator of Social Housing has already put the Directorate on a trajectory of prioritising investment in the stock portfolio and this plan formalises that objective. Commitments have been made to both regulatory bodies in relation to this and the plan sets out how these commitments will be honoured.

1.11 Following the implementation of the Social Housing Regulation Act it is likely that a new Decent Homes Standard will be developed, alongside a Minimum Energy Efficiency Standard. These anticipated changes make the planned 'catch-up programme' to achieve Decent Homes Standards even more important.

1.12 The plan formalises the planned investment in existing stock over a 30-year period; increasing our total investment to £4.581bn, with £1.434bn planned over the next 8 years to achieve compliance with Decent Homes Standards.

1.13 The plan includes £4.326bn of investment to ensure all our homes meet statutory and compliance obligations; £0.554bn of investment to develop a direct delivery pipeline of affordable homes and estate regeneration; £0.255bn of investment towards decarbonisation; and c£0.100bn of revenue to deliver quality services to our residents.

1.14 The plan demonstrates how the Council will make the investment required whilst operating in prudent financial parameters demonstrating long-term financial viability.

1.15 The plan also highlights the need for significant organisational change within the City Housing Directorate. This is imperative, to make sure the Directorate have the right structure, processes and overall culture embedded, to deliver such a large-scale investment programme.

1.16 Whilst this investment plan is ambitious, the Council have worked closely with colleagues at Savills, as well as colleagues from Treasury and Department of Levelling Up to ensure the plan has been thoroughly stress tested, meets our ambitions and most importantly, is genuinely affordable.

1.17 Our tenants and leaseholders are important; there are generally low levels of satisfaction with landlord services and this report enables the Council to make the vital improvements needed to make sure tenants feel more confident in our abilities as a landlord.

1.18 To ensure this investment is fully implemented, the City Housing Directorate will need support from other services and a corporate commitment across the board to deliver safe, warm, and sustainable homes for our residents, in line with a one Council approach.

1.19 It should be noted that the HRA Business Plan is not a budget and will require regular review throughout the period of the plan as things change. Cabinet will receive an annual report setting out future investment year on year. However, the Council have an unwavering commitment to achieving compliance against Decent Homes Standards and this is something that will be fully reflected in any annual reports issued.

1.20 This plan is a key component to the overarching recovery of both the City Housing Directorate and the whole Council. Delivering against the commitments set out in this plan will be monitored corporately through the Council’s Improvement Plan; the Directorate will also have specific governance arrangements in place to ensure the investment programme is appropriately monitored. Any new governance arrangements required as a result of the plan will be agreed with the Cabinet Member for Housing & Homelessness, Overview & Scrutiny Committee, CLT and Commissioners.

2. Recommendations

2.1 That Cabinet:

2.1.1 Approves the HRA Business Plan 2024/25 as the strategic framework for operating the HRA, see Appendix 1.

2.1.2 Approves the 7.7% increase (to reflect CPI+ 1%) for social housing rents.

2.1.3 Approves the 7.7% increase in temporary accommodation rents (dispersed).

2.1.4 Approves the 7.7% increase in temporary accommodation homeless centre rents.

2.1.5 Approves the increase in temporary accommodation service charges in both affordable homes and temporary accommodation, in line with a full cost recovery approach and the national rent setting policy.

2.1.6 Approves the proposal to review the direct delivery model, assessing the speed, effectiveness, and financial viability of the model.

3. Introduction

3.1. The HRA is a ring-fenced account that is predominately made up through Council tenant and leaseholder payments.

3.2. There are several legal features that must be taken into consideration when operating the HRA and these are set out below:

- The HRA is a ring-fenced account.
- Credits and debits are prescribed by statute.
- No general discretion to breach the ring-fence boundaries.
- The HRA cannot budget for a deficit.
- All borrowing within the HRA is in line with the CIPFA Prudential Code

3.3. The HRA Business Plan enables the Council to make medium and long-term plans to ensure we meet our strategic priorities. It also ensures that we:

- Meet our statutory responsibilities (including Decent Homes Standards etc.).
- Can demonstrate that we are able to borrow within agreed financial parameters.
- Can manage our risks and stress-test the financial plan for potential adverse future events.

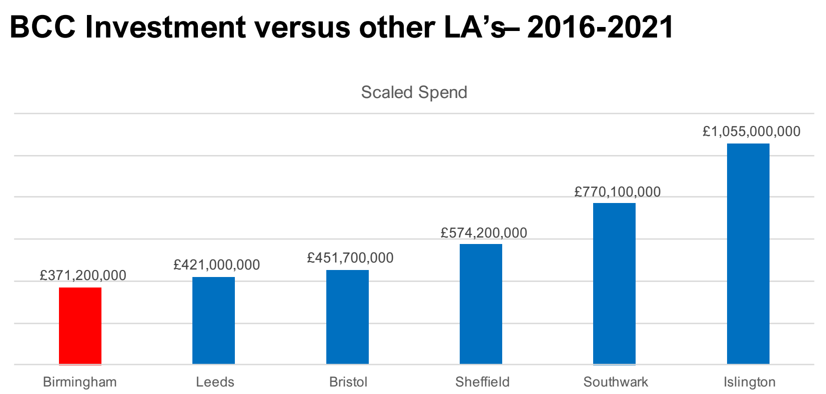
3.4 The HRA Business Plan is supported by the Asset Management Strategy 2024-2029 which sets out in further detail the investment intended across our stock portfolio.

4. Background

4.1 **Achieving Decent Homes Standards**

The Council accepts that the housing stock has not received the investment required over a significant period. Figure 1 sets out our scaled spend on the stock portfolio between 2016-2021, alongside other comparable authorities. There are several reasons why the investment has not taken place; an understanding of the history prevents the Council from taking the same approach again.

Figure 1



The Decent Homes Standards definition and guidelines were updated in 2006; the overarching standard requires all providers to ensure:

'Homes are in a reasonable state of repair; they have reasonably modern facilities and services; and provide a reasonable degree of thermal comfort.'

In 2000, Government gave social housing providers between 2000-2010 to achieve Decent Homes Standards. The Council achieved the minimum standard of compliance against Decent Homes Standards in 2010 but this is difficult to substantiate in the absence of sufficient stock condition surveys across the portfolio.

During this period, the Council investigated (in the same way as many Local Authorities), the possibility of a stock transfer which provided an opportunity to receive Government funding, supporting providers to reach compliance with Decent Homes Standards.

A vote in 2002, saw 66.8% of residents vote to remain with the Council (circa 84,000 households) which meant no centralised funding became available.

In April 2004, 37% of the Council's 70,000 homes met Decent Homes Standards, with the council short of the required funds to address the issue.

A second vote on stock transfer took place in 2006, 75% of residents voted to remain with the Council. Within both votes, the Council consulted on all possible alternatives, including ALMO arrangements which were unanimously rejected.

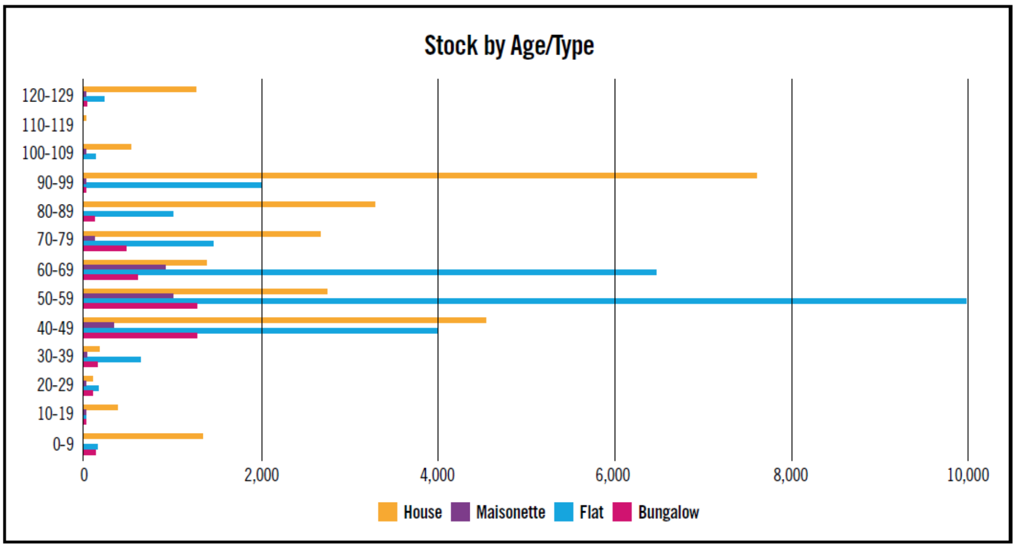
These votes meant that the Council missed out on Government funding, delivering the £680m Decent Homes programme without any external support.

Given the significant pressure on the HRA between 2000-2010, the plan could not withstand continued investment at the rate required to ensure all homes remained compliant with Decent Homes Standards.

The stock portfolio is one that requires intensive investment due to the age and proportion of high-rise blocks; 78% of the total stock is over 50 years old, 28% is over 80 years old whilst only 4% is under 30 years old.

There are 1,500 properties between 120-129 years old. Figure 2 sets this out in more detail.

Figure 2



In addition, the Council are responsible for the largest proportion of high-rise homes in the UK and following the Grenfell disaster, diverted investment to fire safety in these blocks to ensure they remained safe. This included c£0.1bn worth of investment, £0.033bn on sprinkler installation alone.

The breakdown above demonstrates the challenges the Council have faced achieving Decent Homes Standards since 2000. Since the announcement of the Social Housing Regulation Act, the Regulator of Social Housing have released their new set of proposed Consumer Standards, indicating that all homes must achieve 100% compliance against Decent Homes Standards.

It is anticipated that the Regulator also plans to consult on a future Decent Homes Standard in 2024, enhancing expectations related to stock quality.

Currently, 62.15% of the Council's stock meets the current Decent Homes Standards. We know that this is not acceptable and has a detrimental impact on residents who live in our homes.

Following the notice issued by the Regulator of Social Housing, the Council have been working to drive forward performance in this area.

4.2 **Organisational structure**

City Housing became its own Directorate in April 2021, following several years of being part of the Neighbourhoods Directorate (since 2012). The Directorate was made up of several front facing services, such as street scene, grounds maintenance etc.

Throughout this period, housing had a lack of coherence and focus on strategic priorities, with senior managers split across lots of different operational areas. This was a challenge, given the size of the housing service and the stock portfolio.

Once the Directorate reformed in April 2021 and became City Housing, the leadership was made up predominately of temporary posts, suffering a considerable period of transition and change. Permanent positions were recruited to across the full service in October 2023.

4.3 **National operating context**

Public sector funding has been cut since 2010, Council budgets have been sliced (£15bn real term reduction) and austerity measures have culminated in a c£30bn-£50bn shortfall. Cuts like this have been coupled with removal of funds like the major repairs allowance, which was a vital funding stream for maintaining Council homes.

At the same time, following the Grenfell disaster, the Government have introduced a series of legislative changes to the sector. This included a range of fire safety requirements which came at significant cost to the Council.

Whilst grants and funding rules have focused on housebuilding, the ability to fund investment in existing stock is underpinned by borrowing, financed predominantly by revenue income from rents, which are capped at a national level.

This means the Council's response to the likes of the Building Safety Act and Social Housing Regulation Act have been entirely self-funded.

Intelligent investment is the overarching objective of this plan, our assets and ultimately resident's homes must be prioritised, ensuring our there is a long-term and sustainable model for the future.

5. Strategic Priorities

The strategic priorities set out below are aligned to the Council's Housing Strategy 2023-2028, launched in January 2023.

5.1 **Delivering compliant services (including Decent Homes Standards).**

Birmingham City Council must ensure that compliance with statutory obligations, including compliance with Decent Homes Standards, is a key priority both immediately and in the future.

The Council was subject to a Paragraph 49 report, related to both repairs and complaints handling, published by the Housing Ombudsman in January 2023.

Consequently, the Council then received a Regulatory Notice, issued by the Regulator of Social Housing in May 2023.

The notice was issued due to breaches of the Tenant Involvement & Empowerment Standard and the Home Standard. The Home Standard focuses specifically on landlord Health & Safety (H&S) compliance and compliance against Decent Homes Standards.

Areas of landlord H&S compliance, specifically focus on what is more commonly known in the sector as the 'big 6;' (fire risk assessments, legionella testing, electrical safety, gas safety, asbestos management and lift safety).

Prior to interventions from the Housing Ombudsman and the Regulator, the Council were focused predominately on gearing investment towards high-rise blocks following the Grenfell tragedy in 2017.

In addition to this, the implementation of the Social Housing Regulation Act and the Regulator's move from a reactive, to a proactive regime will align regulation in the sector to other frontline services like Adult Social Care, regulated by CQC and Childrens Services, regulated by Ofsted. This level of regulation requires a robust response, supported by long-term investment.

The proposed HRA Business Plan includes capital investment which totals £5.135bn over the 30-year period.

£1.434bn is planned over an 8-year period. This reflects a catch-up programme of works, whereby 100% of the stock portfolio will meet Decent Homes Standards by 2031/32.

Focus on statutory compliance and the subsequent investment in Council homes will relieve pressure on litigation claims, complaints, and the number of service enquiries received in the coming years.

Some of the reports received in these areas are related to the quality and standard of the stock portfolio, investment now will enable spend to be reduced across all areas and will improve resident satisfaction.

5.2 **Direct delivery (scaling back).**

The Council has an established direct delivery model to deliver both social rented homes, and homes for outright sale. it is not a separate company or entity of its own and is made up of Council officers.

This plan proposes a comprehensive review of the direct delivery model to ensure it adopts a value for money approach and is measured against other alternative solutions. The overarching principle of any review will mean that direct delivery will only be considered when the model promotes financial viability for the long term and can evidence that it provides a better solution than alternative approaches to delivery.

A direct delivery development programme is included within the HRA Business Plan, but has been significantly scaled back, particularly over the first 8 years whilst the Council focuses on investment on statutory and compliance requirements within the existing portfolio.

The Housing Strategy 2023-2028 highlights the need to include the of delivery new affordable homes through a third party.

This mixed economy approach, builds on the direction of the Housing Strategy 2023-2028 prioritising site disposals to Registered Providers, private financing or through a development agreement with a developer/contractor partner to deliver homes to the HRA at a fixed price.

Prioritising partnerships with Registered Providers and developers, as well as Homes England and the West Midlands Combined Authority (WMCA) will help to alleviate any risk to supply, and the delivery of affordable housing remains a continued priority to manage demand.

There is an existing transformation programme (started in 2023) to support the increase of affordable housing output. The programme covers themes like; partnership working, governance and direct delivery. As part of this programme, the Council commits to an independent review of the direct delivery model to ensure there is reflection on the approach and options available for the city.

This review is even more important given the Council’s position with the Regulator of Social Housing; Homes England are not in a position to allocate Affordable Homes Programme (AHP) grant to the Council whilst breaches against the Consumer Standards exist.

Registered Providers are facing similar strain, in relation to the new regulatory regime and therefore several providers have reduced their development ambition. Given this, it is important that all doors remain open in relation to the delivery of affordable housing both now and in the future.

Built in to the HRA Business Plan, are a set of assumptions around direct delivery which are in keeping with the Council’s objectives to scale back delivery. These are set out below:

- **Funding for the committed programme**- there are sites the Council is in contract with or the contract award has been issued to begin development. It is proposed given the stage these have reached that these are built into the plan.
- **Regeneration-** the Council has already committed to significant redevelopment schemes at Druids Heath and Ladywood; other housing developments at Pool Farm and Bromford have also involved demolition of existing homes.
- **Funding to support land assembly/site clearance**- appropriate funding will be allocated in the first 5 years of the plan to enable the Property Services team to prepare the site for re-develop delivery.

- **Funding to support option appraisal works on future regeneration of estates-** Funding over the first 5 years of the plan should be allocated to support in the evaluation and completion of stock option appraisals through Property Services, in line with an asset management approach. This will determine the future viability of the existing stock and identify future development potential & routes to market.

5.3 **<u>Delivering landlord functions.</u>**

The HRA will continue to fund the vital landlord functions in the Asset Management and Housing Management teams as well as the contract extension and re-procurement of Repairs & Maintenance contracts.

The revenue streams from the HRA provide vital services such as disrepair & litigation, voids management, lettings, and other aspects of operational delivery. One of the key revenue streams that is delivered through the HRA is the Repairs & Maintenance service which is outsourced to Fortem and Equans who cover specific geographical areas.

There continues to be significant pressure on repair costs. Due to market factors, such as inflation, supply chain and construction costs, there has been an across-the-board above inflationary increase in cost. This plan reflects recent significant a cost increase to ensure prudency.

5.4 **<u>Organisational change.</u>**

The plan is underpinned by the need to deliver a large-scale organisational change programme across the City Housing Directorate. Throughout autumn 2022, Campbell Tickell undertook a full-scale review of the City Housing Directorate, supporting the design of a new operating model, focused on operating more locally in communities.

Campbell Tickell produced a report in December 2022 and the proposed changes were agreed by CLT in February 2023. The development of the HRA Business Plan factors in vital structural changes across the landlord function.

This plan must be agreed by Cabinet before structural change can be progressed. Subject to Cabinet agreement, service leads are developing structures that enable value for money service delivery and better resident satisfaction.

6. Funding Strategy

6.1. **Affordability and Sustainability-** the Council have prioritised the development of a plan that is affordable, sustainable and meets the long-term needs of the service. The ‘golden rule’ applied within this plan is an interest rate cover of 1.10; this is a prudent approach given the sector standard sits between 1.00 to 1.25. This tests capability of net cashflows generated by the stock to cover the debt borrowed to help generate and maintain those cashflows.

6.2. **Debt Repayment-** in terms of debt repayment, all of the newly arising debt within the plan is repaid within the 30-year period. Prudential Code suggests borrowing should be covered off, to a material level, over the planning period.

6.3. **Revenue Income-** this plan estimates rental income of £0.301bn in the next financial year, with this rising in line with estimated long-term CPI+1% each year and with new developments and a rate of property turnover bringing rents to formula over with each change of tenancy. Decreases over time are netted from this increase due to stock loss through Right to Buy (RTB) sales.

6.4. **Revenue Income (2)-** the Council collects service charges and other minor forms of revenue income, giving the HRA £327m. revenue funding in 2024/25. The Council also anticipates carrying a £24m general reserve into that financial year.

6.5. **Revenue expenditure-** this is to be spent on revenue elements of repairs and maintenance (£98m 2024/25), the day-to-day operations of the landlord function (£102m 2024/25) and financing the HRA capital programme, including borrowing costs, debt management, depreciation, and contingency reserve (£127m).

6.6. **Efficiency-** this plan targets the day-to-day operations by reducing 2023/24 spend by 10% within the next two years, due to efficiencies coming from the implementation of a new operating model and a reduction in wider Birmingham City Council cost commitments to central services.

6.7. **Birmingham City Council Recharges-** £39m of these day-to-day operations are carried out by existing functions within the wider Council, and this forms a planned recharge of this amount from the HRA budget to the Council accounts. These charges are currently under review to ensure the services provided offer the best value for money to the HRA.

6.8. **Capital Funding-** the plan allocates the use of £49m of reserves, grants and capital receipts, £59m from the major repairs reserve, £8m from HRA revenue contributions and to borrow £152m in order to fund £268m of capital expenditure in 2024/25.

6.9. **Capital investment in existing stock-** the plan proposes a capital investment programme, spending £215m in 2024/25 focused on meeting Decent Homes Standards within 8 years. Over the life of the plan, this allocation is £4.581bn. These proposals have been developed over several months, with the support of external advisers such as Savills, Campbell Tickell, and ARK. DHLUC, the Regulator of Social Housing and the Housing Ombudsman who have also provided comment.

6.10. **Financial risks**- the plan recognises the fluctuations both short and medium term, in the assumptions used in modelling, and assumes prudent inflation, borrowing and income collection rates, builds a revenue reserve to cater for in year fluctuations, and will be refreshed annually in order to replan for any major variations to the plan as it progresses.

6.11. **Capital Investment in development**- this plan includes £53m investment in new developments and clearance costs for the same. Over the course of the 30-year plan investment equates to £555m and delivers the existing programme and future programme of 250 new affordable homes a year.

7. Rents and Service Charges

7.1. In November 2023 the Government confirmed its intention to revert the rent policy for 2024/25 to CPI+1%. With October CPI at 6.7%, this allows the Council to increase social rents to a maximum of 7.7%.

7.2. It is proposed that Cabinet agree to increase social and affordable rents by 7.7%, in order to counter some of the impacts of high inflation and borrowing costs and to make available the income achieve our statutory and compliance obligations.

7.3. Each 1% reduction in 2024/25 rent increase from the 7.7% cap would mean a permanent loss in income of £2.6m average per annum, or £77.3m over the life of the plan, which is the equivalent to:

- 519 less bathroom renovations each year (15,000 over the business plan)
- 317 kitchens less each year (8,000 over the business plan)
- 208 less roof replacements each year (6000 over the business plan).

7.4. The average weekly rent to be implemented because of this revision will be £107.76 (representing the weekly rent payable over a 48-week cycle, with 4 weeks rent payment holidays, 2 weeks in each of December 2024 and March 2025).

7.5. This weekly rent over 48 weeks is equivalent to an annualised average rent over 52 weeks of £99.79. It is further proposed that social rents for new tenants continue to be set at formula rents as set out in the 'policy statement on rents for social housing' (February 2019).

7.6. It is proposed that rents charged for properties let at affordable rents continue to be calculated by reference to formula rents, as set out in the "Policy statement on rents for social housing" (February 2019), with an uplift on a 52-week basis of £3.25 per week (representing an increase of 7.7% from 2023/24).

7.7. It is proposed that service charges are updated following a review of the services provided and to reflect changes in costs of service delivery due to pay and price inflation. There is a continuation of the existing policy to fully recover the cost of rechargeable services to tenants.

7.8. It is accepted that service charges are not currently being collected in a fair and consistent way; the purpose of the review is to ensure costs are correctly attributed and this is equitable for all residents.

7.9. The increases required to achieve full cost recovery on cleaning and caretaking charges and the sheltered and extra care charges will be implemented over the next 3-years.

7.10. Service charges are agreed a year at a time to reflect the costs of providing the chargeable services for the year to come; service charges for 2025/2026 will be set in January 2025.

7.11. The 2024/2025 proposed service charge increases are put forward for agreement in this plan, given that residents require adequate notice of any new charges.

7.12. Service charges will be levied over a 48-week cycle alongside the weekly rent, with the 52-week equivalent shown in the table below.

	23/24 charge	**24/25 charge**	**Variation**
Low-rise with a Cleaning Service	£3.03	£8.25	£5.22
Low Rise with Communal Electricity (No Cleaning)	£0.00	£3.81	£3.81
High-Rise	£17.93	£16.36	£1.57
High-Rise + NTS	£29.02	£28.84	£0.18
Sheltered / Cat 1 - high rise	£26.52	£27.12	£0.60
Sheltered / Cat 1	£8.59	£10.76	£2.17
Extra Care / Cat 2	£11.33	£15.66	£4.33
Careline	£3.01	£3.50	£0.49
Traditional Concierge / Night-time Security (Bloomsbury EMB only)	£23.29	Charges set separately by Bloomsbury	

Other rents are recommended for CPI increase as below:

	23/24 charge	**24/25 charge**	**% change**
Garage rent (excluding VAT)	£10.51	£11.21	+6.7%
Parking Spaces	£2.90	£3.09	+6.7%

Equity Parking Spaces A	£1.44	£1.54	+6.7%
Equity Parking Spaces B	£2.04	£2.18	+6.7%
Sundry Parking	£2.68	£2.86	+6.7%

8. Temporary Accommodation (TA) Rents & Service Charges

8.1. Most of the TA provided in discharge of the Council's statutory duty is accommodation leased from private sector landlords, the Council's own dispersed properties, homeless hostels, and use of B&B where demand is greater than supply.

8.2. The current TA charging policy has been in place for several years and is signed off annually by the benefits service. Rents are based on a cost recovery basis as set out in 2014/15 charging methodology.

8.3. For the B&B and private sector leased properties these are fixed rates, capped at Local Housing Allowance (LHA) level 2011 and therefore are not subject to any changes.

8.4. Our recommendation is that Cabinet approve a 7.7% increase on homeless centres, in line with social housing rent increase.

8.5. The impact of any rent increase in TA on residents will be minimal, 75% of residents in TA have either full, or partial benefit entitlements; any resident that has some entitlement to either Universal Credit or Housing Benefit, will not be impacted as the full increase will be covered by benefits. This is only applicable where the resident is claiming the benefits they are entitled to.

8.6. It is proposed that the Housing Solutions and Support Service undertake targeted support to households who are not claiming the right benefits, to ensure income is maximised prior to the increase.

8.7. Households who are not maximising benefits appropriately are also entitled to support through the household support fund, including support through the c320 warm welcome hubs in the city. This is bolstered by the support of voluntary sector services.

8.8. TA service charges are raised for residents in hostels, due to the rechargeable support provided. Charges currently amount to £11.58 per room, and it is proposed to increase the charge to each family, regardless of the number of rooms used, by £7.70, in order to continue the existing policy of full cost recovery, without unduly impacting on larger families in these settings.

8.9. Cabinet is recommended to increase rent on dispersed properties by only the equivalent increase in the rent paid to the HRA for the use of these properties**.** See below table for figures:

Dispersed Properties		**2023/24 Current Charge £**	**2024/25 Proposed Charge £**	**Change £**	**Change %**
Flat	0 bedroom	174.83	184.91	10.08	5.8%
	1 bedroom	183.26	193.99	10.73	5.9%
	2 bedroom	208.21	220.68	12.47	6.0%
	3 bedroom	229.38	243.40	14.02	6.1%
	4 bedroom	239.46	254.29	14.83	6.2%

Bungalow	0 bedroom	163.40	175.13	11.73	7.2%
	1 bedroom	172.00	184.40	12.40	7.2%
	2 bedroom	179.19	192.13	12.94	7.2%
	3 bedroom	189.16	202.91	13.75	7.3%
House	1 bedroom	172.60	185.06	12.46	7.2%
	2 bedroom	188.19	201.77	13.58	7.2%
	3 bedroom	208.66	223.73	15.07	7.2%
	4 bedroom	235.35	252.21	16.86	7.2%
	5 bedroom	270.65	290.02	19.37	7.2%
	6 bedroom	316.66	339.22	22.56	7.1%
Maisonette	2 bedroom	183.05	196.49	13.44	7.3%
	3 bedroom	199.65	214.27	14.62	7.3%
	4 bedroom	214.50	230.21	15.71	7.3%

Homeless Centres		**2023/24 Current Charge £**	**2024/25 Proposed Charge £**	**Change £**	**Change %**
Hostel rent					
	1 bedroom	258.89	278.82	19.93	7.7%
	2 bedroom	307.27	330.93	23.66	7.7%
	3 bedroom	355.86	383.26	27.40	7.7%
	4 bedroom	404.33	435.46	31.13	7.7%

9. Risks and Mitigations

Risk Event	Impact	Mitigations
Scaling back the direct delivery programme	A reduction in affordable homes may increase the reliance on temporary accommodation, particularly B&B through the General Fund (approx. 25k per household).	The development of the Housing Strategy 2023-2028 has bolstered partnerships with Homes England and the WMCA to enable third party delivery.
Inability to afford to deliver regeneration programmes	Regeneration schemes like Druids Heath and Ladywood may lead to costs from the HRA	There is provision in the plan to support regeneration schemes but any future work on these schemes will need to be agreed at Cabinet as a separate report, setting out benefits, risks and mitigations.
Higher levels of inflation than anticipated	Possible given the current volatility within global markets. This will increase both capital and revenue expenditure	Mitigation measures would include continual reassessment of direct delivery and capital investment programmes.
Higher levels of interest rates	Given the significant levels of borrowing proposed, we have been prudent in our assumptions, although increases would impact on viability through increased interest costs.	Mitigation measures would include reassessment of direct delivery and capital investment programmes.
Changes to rent policy	The plan assumes that the current rent policy would continue (in	A general election likely next year and a change in policy is possible. Mitigation

	addition to the assumptions within the 2012 self-financing settlement) any diversion from this would impact on revenue and the ability to finance the programmes.	measures would include reassessment of direct delivery and capital investment programmes but also reviewing management efficiency savings.
Increased arrears or void periods	The plan is prudent around its current assumptions but if these were adverse it would affect the revenue position and ability to fund the capital programme.	New procedures could be implemented to ensure greater recovery of rents and management of voids.
Greater increase to the cost of the repairs contract than anticipated.	If the cost of the repairs contract increases beyond the anticipated amount, this would affect the revenue position and ability to fund the programme	Mitigation measures would include reassessment of direct delivery and capital investment programmes.
Revised Decent Homes Standard	Whilst the new standard is in consultation there potential the cost for meeting Decent Homes Standards could increase, this is likely given Government emphasis in proposed consumer standards	The investment programme would need to be revisited to identify efficiencies and/or a review of the direct delivery programme.
Efficiency savings not achieved	The plan assumes a 10% efficiency across the board saving to management costs. If this is not achieved, then revenue surpluses will be decreased and the ability to meet financing charges.	Unknown, given that some of the efficiencies will be delivered via reductions in corporate charges. Reassessment would be needed for all delivery programmes and this should continue throughout the life of the plan.
Additional recovery of service charges	The plan assumes that all service costs that are rechargeable are fully recovered. If this is not achieved this would have an adverse impact on the revenue position in being able to finance the capital programmes.	Unlikely, given the need for the HRA to raise revenue within appropriate means. If this is not implemented, then delivery programmes will need to be revisited.
Compliance with regulatory intervention	The required level of pace is considerable, and commitments have been made to both the Housing Ombudsman and the Regulator re compliance. Failure to deliver could lead to increased sanctions from the Regulator whose primary concern is the Council’s non-compliant position against Decent Homes Standards.	Anticipated to be unlikely and mitigated by increased stock condition surveys, improved IT structures, reporting and accelerated landlord H&S programmes.
Resident Engagement/Satisfaction	There are currently low levels of satisfaction across the resident base and engagement with residents is not at the expected level. This poses significant reputational risk to the Council.	The activities set out in the plan will improve resident satisfaction (R&M contract re-procurement, investment in stock, management of complaints, service re-design etc.) Regular measurement of satisfaction through formal surveys will monitor this.
Equal pay liabilities	The plan assumes that the HRA will need to contribute to the equal pay liability owed by the Council. The exact figure is not yet understood, this could impact delivery in the plan.	Mitigation measures would include built in assumptions into the plan in anticipation of any potential expenditure required. If the amount is greater than the assumptions made, this will be

		reflected within the direct delivery scale back.
s.114 intervention	Impact of delay around financial decision making as a result of additional financial constraints	Anticipated that such occurrences will be mitigated through comprehensive planning and therefore a reduced likelihood- compliance continues to be an accelerated area and this relates specifically to Decent Homes Standards.
Financial hardship to residents	Rent increases may cause financial hardship to residents who are continuing to expect challenge through a cost-of-living crisis.	Residents who are on full or partial benefits are protected from the impact of rent increases. Residents who are working will be entitled to tailored support from the available cost-of-living toolkit, targeted visits, and safe spaces such as the 320 warm welcome hubs.

10. Financial implications

10.1. This plan is both a strategy and 30-year financial plan. It ensures that the aims and objectives for City Housing can be met from the ringfenced resources available over that time-period, from rents, service charges, grants and right to buy receipts.

10.2. The plan includes borrowing to a maximum of £2.403bn for capital investment in existing stock and developing new stock to replace losses through RTB, alongside revenue spend of over £0.320bn per annum for managing these assets, financing the above borrowing, and managing the tenancies and day-to-day operation.

10.3. The plan ensures that we meet our strategic objectives set out in the Asset Management Strategy, meeting statutory obligations such as Decent Homes Standards within 8 years, development of new build properties to replace stock lost through RTB and to progress decarbonisation aspirations.

10.4. We are able to achieve these objectives within the capital borrowing outlined in the plan. Where there are underspends against the capital budget this will be diverted to the existing acquisitions budget to increase the supply of available units within the HRA.

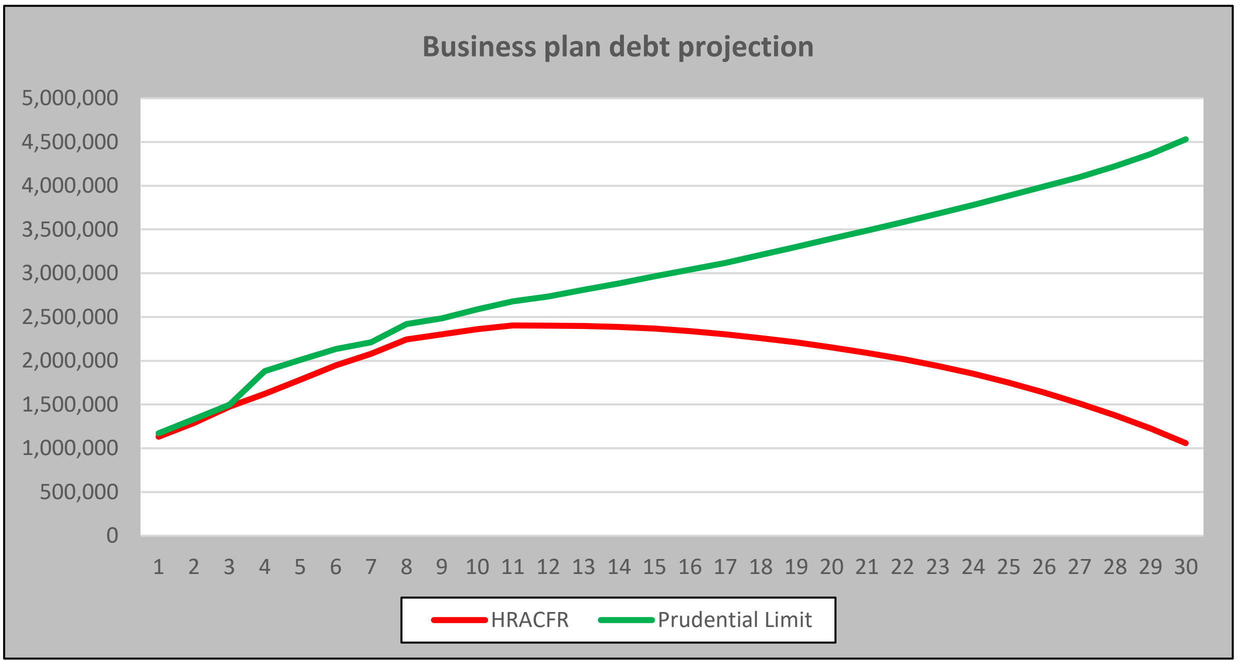
10.5. Where possible, the enhanced programme particularly in relation to Decent Homes Standards will lead to increased productivity, particularly around the provision of windows and doors etc. The compliance programme will also lead to the accelerated provision of fire doors etc. All of these activities pose an opportunity for the General Fund as Shellforce are one of the main providers in this area.

10.6. The proposed HRA Business Plan is affordable because:

- The annual financing costs associated with this borrowing can be paid from the annual rental income in the plan, as well as the day-to-day operations of the landlord function. Furthermore, the plan includes an allocation of funding to add to a reserve, to ensure the plan is financially resilient to fluctuations in income, interest, and inflation rates.
- For the first 8 years of the plan, borrowing is maximised and repayment of debt is minimised, to invest in existing stock to meet Decent Homes Standards. From year 9 onwards, both interest and repayment are included in the financing allocations, to ensure new borrowing is paid off over the next 33 years.

- The measures used to determine affordability set that new borrowing is repaid to a material level over the course of the plan, and that each year the interest cover ratio is at 1.1%, where 1% means there is exactly enough residual income after operational commitments to service the debt. Both measures are displayed in the graph below, this is set out in Figure 5:

Figure 5



- The borrowing levels required to fund this plan peak at £2.403bn, which is considered affordable within the annual revenue resources available to fund under prudential borrowing guidance.

- Rental increases are capped by government and set according to local policy. The affordability evaluation is based on 7.7% rental increases in 24/25, and CPI+1% each year after. This is in line with recent government policy, but each percentage variation to this creates a £2.6m per annum ongoing difference to funding.

- Borrowing rates are set in line with Council Treasury planning, including a 40-point reduction for 12 months as per DHLUC allowances. The timing of the borrowing means there is not a simple measure to use to determine the impact of any fluctuations.

- The plan includes efficiency savings targets on internal resource costs of 5% cumulative for two years. At this level operational delivery can still be maintained, each percentage variation in the achievability of this saving relates to £8m.

10.7. The above assumptions used are in line with national expectations on the future economic situation and have been scrutinised by industry experts (Savills), but due to their unpredictability, have been further mitigated by the build-up of the minimum revenue reserve.

10.8. Any impacts from the above risks will be mitigated in-year with the reserve, allowing delivery and investment to continue unimpeded. In the next cycle of annual business planning any imbalances from the assumptions will be replanned, including replacement of the reserve, to ensure that the long-term financial sustainability of the plan remains within the overall framework.

10.9. Further to the risks and mitigations highlighted, the HRA business plan includes the building of a contingency reserve and will be refreshed on an annual basis. These two will allow the HRA protect the funding for priority areas if there are cost or funding fluctuations over time.

10.10. The proposed HRA Business Plan has been fully stress tested based on several assumptions. These assumptions are made in line with the sector norms and potential changes that would not be unusual to see throughout the life of the plan. These examples of these are set out in Figure 6.

Figure 6

Figure 6 - Stress testing for variations to assumptions	**New borrowing £m**	**Maximum debt £m**	**Minimum ICR**		**Closing debt £m**	**%age new debt repayable**	**Closing revenue £m**
BASELINE	**1,333**	**2,403**	**1.12**	**Yr 3**	**1,058**	**100.9%**	**78.4**
CPI + 0.5% all years	1,354	2,425	1.11	Yr 3	798	120.2%	90.2
CPI - 0.5% all years	1,312	2,383	1.13	Yr 3	1,295	82.9%	68.1
Addition 0.5% pa to repairs	1,365	2,436	1.11	Yr 3	1,458	71.6%	76.8
Addition 0.5% pa to management	1,367	2,437	1.11	Yr 3	1,450	72.3%	76.9
Addition 0.5% pa to major repairs y6+	1,354	2,425	1.12	Yr 3	1,380	77.2%	77.1
Interest rates + 1% long term	1,452	2,523	1.05	Yr 9	1,634	61.2%	77.6
Interest rates - 1% long term	1,258	2,329	1.14	Yr 1	615	136.2%	78.2
RTB increase 10%	1,333	2,404	1.11	Yr 3	1,952	33.9%	51.5
RTB reduction 10%	1,332	2,403	1.12	Yr 3	714	126.8%	84.9
R&M contract uplift + further 10%	1,421	2,492	1.08	Yr 7	1,499	69.9%	77.1
Voids / bad debts + 1%	1,385	2,456	1.06	Yr 3	1,313	82.5%	77.0
Fail to achieve efficiencies 50%	1,415	2,486	1.03	Yr 3	1,423	75.1%	77.4
Rents at CPI only from 2027	1,729	2,800	0.58	Yr 30	2,800	0.0%	-697.8
Rent freeze 1 year 2027.28	1,450	2,521	1.05	Yr 7	1,670	58.6%	74.6
DHS costs increase 10%	1,475	2,546	1.10	Yr 3	1,370	79.7%	77.9
Increase in all SCS needs + 5%	1,470	2,541	1.10	Yr 3	1,510	70.1%	77.3
Exclude Druids Heath / Ladywood	1,335	2,406	1.11	Yr 3	1,168	92.7%	78.2
Min reserves to 15% of T/Over	1,361	2,432	1.11	Yr 3	1,137	95.2%	114.1

10.11. Approval to spend against the commitments outlined in this report for 2023/2024 have been approved by the s.151 spend control board as per Council process.

11. Legal Implications

11.1. Under Part VI of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.

11.2. The Council is required to prepare proposals each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.

11.3. Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid an end-of-year deficit.

11.4. The proposed HRA budget fulfils these requirements. The report also seeks approval for major investment estimates in relation to a variety of schemes. In compliance with Section 151 of the Local Government Act 1972, the Council has in place Financial Procedures which provide appropriate arrangements for the approval of major works estimates. The various major works schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular the maintenance of dwellings may be considered consistent with the Council's repairing obligation under Section 11 of the Landlord and Tenant Act 1985. This is supplemented by the national rent restructuring policy and the HRA Self-Financing Determination.

12. Consultation

12.1. Consultation on the contents of the report has been undertaken with the following stakeholders, to ensure all relevant parties have had the opportunity to develop the plan.

- Elected Members including the Cabinet Member for Housing & Homelessness
- DHLUC
- The Commissioners- Finance and Housing specifically
- The Regulator of Social Housing
- Housing Ombudsman
- CHLB and local HLBs
- CLT
- Procurement
- Human Resources
- Finance
- Legal
- Feedback from Tenant Satisfaction Measures (TSMs) and Complaints
- Focus groups with involved tenants and leaseholders through the development of the Asset Management Strategy 2024-2029.

13. References and Sources

- Housing Strategy 2023-2028
- Everybody's Battle, Everybody's Business initiative 2022.
- Birmingham Development Plan
- Central Birmingham 2040 Strategy
- Our Future City Plan
- Birmingham City Council Levelling Up Strategy
- Corporate Plan 2022-2026
- Health & Wellbeing Strategy
- Levelling Up Strategy
- MHCLG Publication – HRA Self-Financing Determination (February 2012)
- MHCLG Publication – A Guide to Social Rent Reforms in the Local Authority Sector (February 2002)
- MHCLG Publication – Guidance on Rents for Social Housing (May 2014)
- Cabinet Report: Housing Revenue Account Business Plan 2022-23
- Regulating the Standards (March 2022) – Regulator of Social Housing

14. Procurement Implications

Investment in our assets is underpinned by both the Repairs & Maintenance contract and the availability and readiness of a large pool of suppliers to drive forward compliance focused activity, supporting the Decent Homes programme and other landlord H&S compliance work. This plan must be read in conjunction with the Interim HRM Contract Award Report, which sets out our approach to the overarching procurement and any interim arrangements.

It must be noted that the re-negotiation and long-term re-procurement of the Repairs & Maintenance contracts will be delivered in line with all relevant governance and procurement rules and will be agreed through a separate process, including Cabinet approval.

It is very likely that further direct award opportunities will need to be explored to support longer term compliance activity, particularly in relation to landlord H&S. This mirrors the approach we have already undertaken with areas such as asbestos and gas safety. Any direct award opportunities will be delivered in line with all relevant governance and procurement processes and where appropriate, will be agreed through separate processes, including Cabinet approval.

Any future procurement activity arising as a result of implementing the recommendations will need to be procured in compliance with the Council's Procurement and Contract Governance Rules and the Public Contracts Regulations 2015 / the Procurement Act 2023 as applicable.

15. Human Resources Implications

The emerging redesign plans within the Directorate workforce are being shaped to ensure services best meet the demands and needs of citizens and residents.

Staff are currently being engaged with about the potential changes and once the plans are finalised staff will be consulted with following Birmingham County Council HR Policy and Procedures and current governance requirements.

It is accepted that the HRA Business Plan must be approved, to enable the Directorate to afford to deliver a re-design of this scale and magnitude. Whilst both HR and Trade Unions have been fully consulted on potential next steps, the detail will be explored once the plan has been formally approved.

16. Public Sector Equality Duty

There are no direct equality issues identified as part of the HRA business planning process, or the proposed HRA business plan 2024/25.

The overall increased investment outlined in the business plan will impact all tenants of the Council and there are no changes made in the proposed 2024/25 HRA Business Plan that will have a differential impact on residents based on any protected characteristics.

There are no specific issues identified, as the changes will be implemented for all tenants of the Council and TA residents. Circa 75% of residents will be insulated from the full impact of the revised charges from 4th April 2023 as they are eligible for support towards their housing costs through housing benefit or universal credit.

For any residents who are impacted, they will receive a full package of support delivered by Housing Solutions, as well as specific financial assistance from the Early Intervention & Prevention programme and Neighbourhood Advisory Services (NAIS).

Appendices:

Appendix 1- HRA Business Plan

Appendix 2- Equality Impact Assessment

Appendix 1- HRA Business Plan

	Year 0 2023/24 £000	Year 1 2024/25 £000	Year 2 2025/26 £000	Year 3 2026/27 £000	Year 4 2027/28 £000	Year 5 2028/29 £000	Year 6 2029/30 £000	Year 7 2030/31 £000	Year 8 2031/32 £000	Year 9 2032/33 £000	Year 10 2033/34 £000	Year 1-10 Total £000	Year 1-30 Total £000
HOUSING REVENUE ACCOUNT													
Income													
Rental Income	-281,922	-300,884	-309,011	-318,624	-328,996	-339,380	-350,124	-362,038	-374,278	-385,870	-397,334	-3,466,538	-13,797,671
Service Charge	-16,819	-20,950	-23,093	-23,490	-23,896	-24,247	-24,667	-25,115	-25,571	-26,036	-26,509	-243,573	-866,849
Other Income	-4,789	-5,160	-5,189	-5,267	-5,308	-5,367	-4,961	-5,028	-5,036	-5,085	-5,135	-51,535	-156,521
Total Revenue Income	**-303,530**	**-326,994**	**-337,292**	**-347,381**	**-358,199**	**-368,994**	**-379,752**	**-392,180**	**-404,885**	**-416,991**	**-428,978**	**-3,761,646**	**-14,821,041**
Expenditure													
Repairs & maintenance	79,114	97,943	99,858	88,099	89,995	91,899	93,897	96,167	98,563	101,055	103,547	961,024	3,614,083
Management	103,401	101,719	101,814	103,545	105,217	106,265	108,540	110,905	113,322	115,792	118,317	1,085,434	4,007,694
Bad debts	5,558	5,647	5,297	4,044	4,298	4,565	4,849	5,148	5,455	5,770	6,103	51,176	263,318
Capital Financing (Interest & Debt Mgmt)	49,920	54,153	61,993	69,174	75,843	83,018	89,702	92,679	97,478	100,074	102,363	826,478	3,888,741
Capital Programme Funding (RCCO&Depn)	63,380	67,281	65,663	79,599	79,655	80,585	81,691	86,038	88,796	93,087	97,448	819,842	2,991,773
Total Revenue Expenditure	**301,374**	**326,743**	**334,626**	**344,461**	**355,008**	**366,331**	**378,678**	**390,937**	**403,613**	**415,778**	**427,778**	**3,743,954**	**14,765,609**
Net Surplus/Deficit	**-2,156**	**-251**	**-2,666**	**-2,919**	**-3,191**	**-2,663**	**-1,074**	**-1,243**	**-1,272**	**-1,212**	**-1,200**	**-17,692**	**-55,432**
CAPITAL ACCOUNT													
Investment													
Housing Improvement Programme	183,678	215,533	218,529	221,751	225,143	228,608	187,998	190,972	128,301	130,374	137,738	1,884,947	4,581,067
Clearance	13,956	6,267										6,267	20,223
Development/Acquisition	14,820	46,286	67,609	45,306	41,714	40,497	38,617	78,820	41,726	44,687	32,451	477,712	534,307
Total Investment	**212,454**	**268,086**	**286,138**	**267,057**	**266,857**	**269,105**	**226,616**	**269,791**	**170,027**	**175,060**	**170,189**	**2,368,926**	**5,135,597**
Capital Funding													
Major Repairs Reserve	-65,296	-59,192	-60,530	-62,137	-63,687	-65,301	-66,948	-69,010	-70,813	-72,705	-74,467	-664,790	-2,568,429
RTB Receipts	-31,677	-19,424	-12,075	-26,905	-18,041	-17,672	-3,224	-7,431	-12,331	-12,947	-20,281	-150,332	-622,089
1-4-1 Receipts	-13,950	-15,399	-16,915	-10,844	-4,901	-6,097	-6,832	-10,032	-10,361	-10,697	-8,500	-100,577	-114,527
Other Receipts, reserves and grants	-29,365	-13,653	-6,366	-2,800	-2,027	-1,670	-1,250	-1,250	-1,250	-750	-250	-31,266	-65,381
Revenue Contributions	-5,188	-8,089	-5,133	-17,462	-15,969	-15,284	-14,742	-17,029	-17,983	-20,381	-22,981	-155,052	-430,449
HRA Borrowing	-66,978	-152,329	-185,119	-146,910	-162,232	-163,082	-133,619	-165,040	-57,288	-57,579	-43,711	-1,266,909	-1,334,722
Total Financing	**-212,454**	**-268,086**	**-286,138**	**-267,057**	**-266,857**	**-269,105**	**-226,616**	**-269,791**	**-170,027**	**-175,060**	**-170,189**	**-2,368,926**	**-5,135,597**