

**Report to:** Cabinet

**Date:** 5 February 2020

**Title:** Housing Revenue Account (HRA) 30-Year Business Plan Update

**Report of:** Chief Finance Officer and Director of Regeneration and Planning

**Cabinet Members:** Councillor Alan Shuttleworth, Cabinet member for Direct Assistance Services

**Ward(s):** All

**Purpose of Report:** To present a new HRA 30-Year Business Plan covering the years from 2019/20 to 2048/49, describing the assumptions that underpin it and highlighting the changes in approach, policy and aspirations when compared to previous plans.

**Decision Type:** Key decision

**Officer recommendation(s):**

- (1) That Cabinet adopt Eastbourne's HRA 30-Year Business Plan as a basis for operating the future HRA business
- (2) That Cabinet agree the assumptions underpinning it
- (3) That Cabinet note that the plan has been used as the starting point for setting the 2020/21 HRA Revenue Budget and Rents and the HRA Capital Programme 2019-23, which is the next report on this agenda

**Reasons for recommendations:** The Council now has an opportunity to increase its HRA stock holding and improve its offer to tenants and leaseholders (both current and future) as a result of the HRA debt cap being lifted and HRA rents increasing each year (with effect from 1<sup>st</sup> April 2020)

**Contact Officer(s):** Name: Gary Hall  
Post title: Head of Homes First  
E-mail: Gary.hall@lewes-eastbourne.gov.uk  
Telephone number: 01323 436401

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# 1 Introduction

- 1.1 This report proposes a new 30-Year HRA Business Plan for Eastbourne and describes where it differs from the Council's previous Business Plan. The plan will look to address huge challenges faced by the Housing sector, many of which are locally very acute. Lack of Housing Options for applicants on the housing register and the loss of homes mean that often individuals and families are left in sometimes unsuitable and unaffordable housing for lengthy periods, which Council officers struggle to alleviate. The increase in the numbers of homeless presentations to the authority, particularly since the introduction of the new duties of the Homeless Reduction Act (which came into effect in April 2018) has meant significant costs to the authority and more critically a lack of opportunities to meet this increased demand. It is also long held that physical health and mental well-being are inextricably linked to the quality of housing and wider 'place', so the further opportunity to retrofit our homes to provide that improved healthier offer, along with reducing our carbon foot-print and having the flexibility to positively effect the lives of our tenants, in a wider sense, through social inclusion initiatives, gives this plan an even greater emphasis and an exciting opportunity to address.
- 1.2 The report explains the rationale for the changes that are proposed and how they fit with the Council's direction and priorities. It should be noted that, in this report, the Cabinet is asked to adopt the new principles included in the plan and note the assumptions underpinning it. A detailed 2020/21 HRA budget and rent-setting report will follow next on this agenda, and any future significant decisions to be taken (for example, the details of new build projects when they are fully prepared) will be brought back for discussion and decision at the appropriate time.
- 1.3 The most notable policy changes creating a difference between this Business Plan and those presented to Cabinet previously are:
- a) In October 2018, the government lifted the HRA debt cap for all stock-holding authorities – this means that there is now more flexibility within the HRA Business Plan to increase stock numbers
  - b) Rents will increase from April 2020 (after decreasing for the last four years), meaning that the HRA will receive extra income from tenants to invest in HRA services. The total gross rental income will increase by £334k in 2020/21, equating to an average £2.08 per week per tenancy.
- 1.4 It should be noted that this does not mean that the HRA is without constraint – Eastbourne can only borrow as much as it can afford to borrow to increase its Capital Programme and service offer – there are still choices to be made.

1.5 The assumptions underpinning the Business Plan are set out in detail in Appendix 1. However, the headlines are:

- a) That, in future, stock numbers will increase rather than decrease
- b) That rents will increase by Consumer Prices Index (CPI) + 1%, allowing more resources to be made available to improve services to tenants and leaseholders. It is envisaged that, in the medium term, this will be offset by decreases in heating and other service costs, as the impact of sustainability and improved stock and management investment initiatives result in more efficient homes and services
- c) That the Council will no longer seek to repay HRA debt, but instead invest in the supply of more affordable housing to meet the current and future need
- d) That a one-off sum of £500k will be made available in 2020/21 to allow for sustainability improvements
- e) That a 100% stock survey will be undertaken in early 2020/21 to confirm the current stock condition and future investment requirements

## **2 Proposal**

### **2.1 Improvements to Day to Day Management and Maintenance**

2.1.1 The new Business Plan includes an uplift of £400k in Management and Maintenance costs to enhance services to HRA tenants and residents. It should be noted that this is in addition to the one-off £500k monies available for sustainability pilots in 2020/21. Enhancements will be focused on areas that have been highlighted by residents during service reviews and general feedback. Priority areas will include anti-social behaviour, multiple complex needs, sheltered housing, customer engagement, fuel poverty and neighbourhood area improvement. It is also likely that we will seek to provide further support to those most affected by Universal Credit or suffering from reduced incomes. Staff and tenants are being further consulted and we will seek to build our customer information to ensure that we can make the maximum difference out of this opportunity. We will, of course, also involve local members in those conversations. It is clear though, that this (working with all local partners and agencies) is a platform to provide a real boost to our communities.

These activities will also be in line with new standards likely to be introduced in the future Housing White Paper.

## **2.2 Increased Investment in the Current Stock**

- 2.2.1 The annual budget for Major Works is £4.3m. However, a Stock Condition Survey is due to be carried out this year to ensure that the data is comprehensive and current. The consultancy has been procured and the surveys, covering both Lewes and Eastbourne, will take place between January and September 2020.

Meanwhile there are investment works needed during 2020/21:

### Eastbourne: Capital Investment & Planned Works 2020/21

#### Planned Cyclical Maintenance:

As part of the seven year capital investment and planned works for 2020/21 we have pre- inspected the properties within this year's cycle.

The properties identified consist of 26 Maisonettes and 15 Blocks. The scope of works for each property varies.

The estimated spend on the Eastbourne stock equates to £ 2,810,366

#### Roofing Replacement Programme & Associated Works:

A total number of 58 properties have been identified for full roof replacement with associated works consisting of fascia / soffit replacement, chimney and lead flashing repairs and insulation upgrade were required.

The estimated planned cost at this stage is £535,800

#### Window Replacement Programme:

A total number of 113 properties have been identified for full window replacement which are predominantly residential units. Archery Court, a sheltered block unit, has been identified for full scheme window replacement.

The estimated planned programme cost is £1,230,000

#### Kitchen & Bathroom Planned Programme:

The planned kitchen & bathrooms based on the asset data has identified 35 kitchen replacements and 25 bathroom replacements.

Total kitchen cost: £210,000

Total bathroom cost: £75,000

The total projected major planned works is £4,861,166. However, this is contingent on the specification, tender prices and section 20 consultation with leaseholders received. The contracts are being procured in-house, in partnership with the South East (Procurement) Consortium (SEC). It is also planned to manage these contracts in-house. There could be some slippage in the programme due to the need to recruit to the in-house team and this will enable the budget to be contained. The contracts being procured will be for three years; this should attract better value for money compared to the previous practice of procuring each project individually via consultants. Due to the uncertainty of future priorities pending the stock condition survey, all leaseholders will be formally consulted under section 20 as part of the procurement process.

An Interim Asset Management Strategy is being drafted to enable us to direct resources most appropriately around needs of the housing stock.

2.2.2 In 2020/21, £500k has been allocated to run a sustainability pilot. There are a number of actions to be taken forward prior to a sustainability pilot project. The first call on the allocation of this one-off budget will be to appoint a Property Services sustainability officer (a shared post covering Lewes and Eastbourne) to ensure a cohesive approach and to build relevant aspects of the longer term asset management strategy. This officer will be required:

- To work with the Council's Sustainability Officer to understand the current carbon footprint of the housing stock
- To co-ordinate current electric heating pilot schemes
- To review the current solar and photovoltaic installations, their condition and maintenance arrangements
- To investigate opportunities for extending such opportunities and the Renewable Heat Initiatives funding available until 2021
- To work with the Asset Manager (Property Services), Sustainability Officer and other organisations to determine the capital cost of capital investment solutions in relation to the actual reduction in carbon emissions
- To assess the impact and cost-effectiveness of insulation pilot schemes planned during 2020/21 and project manage them on site gaining customer feedback
- To understand and re-evaluate existing partnership and funding arrangements
- To upgrade existing solar water heating systems and bring them back into use
- To allocate funding to the above from the £500k budget

All of this activity will be aimed at reducing costs for tenants and residents whilst making their homes warmer.

## **2.3 The Provision of Additional Affordable Homes in the HRA**

- 2.3.1 The Business Plan assumes that, with effect from 2019/20, new homes will start to be acquired or built using HRA resources. Over the 30-year life of the plan stock numbers will increase from 3,440 (held as at 1<sup>st</sup> April 2019) to 4,606 by March 2049, a net increase of 1,166.
- 2.3.2 The first new build scheme to be modelled into the plan is Bedfordwell Road. This is due to complete in Year 4 (2022/23), when new properties will be completed and occupied. The budget allowed for the scheme is as previously reported to Cabinet. It is estimated that it will deliver 55 new affordable HRA properties (a combination of affordable rented and shared ownership tenures).
- 2.3.3 From 2023/24 onwards, 47 new build dwellings per annum are included in the plan. It should be noted that the figures for these new build projects are based on averages and do not at this stage relate to any specific sites or schemes – as sites are identified and proposed new build schemes are drafted, tested for viability and fully costed, these will be brought back to Cabinet for approval.
- 2.3.4 The plan assumes 13 purchases in 2020/21, 11 in 2022/23 and 22 per annum with effect from 2023/24. These have been modelled based on maximum affordable purchase prices. This means that each dwelling purchased will be subject to a check that the net rental income will cover the borrowing cost. Where this cannot be achieved, the purchase will not go ahead, unless under exceptional circumstances. This approach will ensure that each individual property will have a “positive impact” on the Business Plan and not add cost to it. It is envisaged that this activity will target the repurchase of those properties that were lost through Right to Buy, where appropriate and available.
- 2.3.5 All new additions to the plan are assumed to be let at “affordable” rent levels (Local Housing Allowance rates) – if rents are set at a lower level, the capacity for delivery is likely to be compromised.

## **3 Outcome Expected and Performance Management**

- 3.1 The expected outcomes are expressed in monetary terms within the plan itself. Other targets, such as rent collection and void turnaround performance are subject to regular monitoring through the Council’s performance framework. Tenant and Leaseholder satisfaction, particularly with new initiatives and changes to current service levels, will be monitored through the current Tenant and Leaseholder engagement framework.
- 3.2 An officer group is already in place to oversee performance against the 30-Year HRA Business Plan. This group will ensure that the Business Plan stays on track and that resources are deployed effectively to increase stock levels, improve current stock condition and improve management and maintenance services. Any significant changes to the assumptions underpinning the Business Plan will trigger a full review to assess the impact. In any event, there will be a review and update annually.

## 4 Consultation

- 4.1 The Board of Eastbourne Homes Ltd has received a presentation showing the proposed Business Plan, and is in agreement that it represents a good way forward for the Council and its tenants and residents.

## 5 Corporate Plan and Council Policies

- 5.1 This plan will align with the Eastbourne corporate plan which has housing and development as one of its key areas of focus:-

The plan outlines that-*'We will work alongside residents to deliver decent, safe and well managed housing, meeting the needs of residents by; investing in our homes; creating communities that work; and responding to and homelessness and housing needs through maximizing the provision of new affordable housing'*

The Corporate plan also identifies that-

*'Our success measures are:*

- the number of new homes built or purchased*
- reducing the number of families housed in emergency accommodation*
- increasing the levels of satisfaction across housing services*
- increasing the numbers of residents helped to remain independent and in their homes'*

Key local factors that both plans seek to address (from the Corporate Plan) include:-

**'Addressing Homelessness'**- with an emphasis on prevention and support and bringing empty homes back into use

**'Promoting homes that sustain health & wellbeing'**- looking to explore how technology can be used to maintain independent living and taking the opportunity to strategically integrate health, housing and care

**'Promoting access to housing that meets modern standards'**-continuing a pipeline of properties, promoting a range of tenure initiatives and creating environmentally sustainable, safe, well-managed homes

**'Safe, well managed and decent homes'**- ensuring residents have a strong voice, and a reduction in the environmental impact of Council owned homes

**'Locations regenerated and more housing'**- achieved by an agreed local plan, working with partners to build affordable carbon-neutral homes, utilise shared assets and look to repurpose commercial units as residential. To ensure that new development is sustainable

- 5.2 A number of key (current and future) Council policies, plans and strategies will be aligned to help deliver the objectives and goals set out in the draft Housing Strategy. These include the Allocations Policy, Commercial Strategy, Homelessness Strategy, Local Plan, Tenancy Policy, Town Centre Strategy and this HRA 30-Year Business Plan.

## **6 Business Case and Alternative Option(s) Considered**

- 6.1 The Business Plan is designed to make improvements to the HRA service in a balanced and considered way. It will improve day to day services, allow additional investment in the current stock and increase stock numbers. The increase in stock numbers will prevent families having to go into expensive and unsuitable temporary accommodation. This will improve life chances whilst at the same time relieving pressure on the Council's temporary accommodation budget, allowing it to divert resources into other, more appropriate, services. Clearly that further investment in housing stock, environment, place and people gives the plan that extra impetus to address inequality, social inclusion issues, health and mental well-being, with good quality healthy homes being at the heart of addressing those key determinants.
- 6.2 There are many alternative options that can be considered when setting the Business Plan. Some of these are:
- a) Repaying debt – however, this would not allow an increase in supply of much-needed, new affordable Council homes
  - b) Investing all the additional resources in the current stock – again, this would not help to tackle the Council's homelessness problem
  - c) Investing all the additional resources in new additions to the stock – this would not benefit current HRA tenants and leaseholders and would not allow the Council to look at sustainable initiatives to meet the Council's sustainability agenda
  - d) Do nothing – the balances on the HRA would gradually build up, but nobody would benefit from the flexibility that is now available to Eastbourne to do more for its highest need communities

## **7 Financial Appraisal**

- 7.1 The financial implications of adopting this plan are included in the main body of the report. In producing the plan, a comprehensive review of its key components has been carried out, with different modelling and scenarios tested in order to arrive at the current proposal.

The plan will require review and updating at least annually, but possibly more often if there are significant changes to any of the assumptions included in Appendix 1.

## **8 Legal Implications**

- 8.1 The legal implications of adopting this plan are included in the main body of the report. In particular, paragraph 1.3 advises that the lifting of the debt cap does not mean the HRA can be operated without constraint. Local authorities are able to borrow against their expected rental income, in line with the Prudential Code.



## **9 Risk Management Implications**

9.1 Since the inception of “self-financing” in April 2012, it has become clear that the biggest risks to a Council’s HRA 30-Year Business Plan arise when the Government implements a new policy that affects it. Two examples of this are:

- a) The imposed year on year reduction in HRA rents from 2016/17 for four years – this had a significant impact and challenged Councils to fundamentally review their HRAs in order to respond appropriately
- b) The consultation on the sale of high value voids – this was never implemented, but again forced fundamental review and would have had a significant impact on most HRAs

Even though the HRA has been challenged in this manner from Government, authorities have managed to respond appropriately and review and resize their businesses accordingly.

9.2 Transferring the Bedfordwell Road scheme from the General Fund to the HRA poses a significant risk to the viability of the plan. Progress on the scheme will need to be monitored closely to ensure that costs do not increase and that properties are delivered to the HRA within projected timescales. The scheme features early in the Business Plan, so any adverse impact is likely to be experienced in the short to medium term, rather than the longer term. It is understood that the scheme is going to be de-risked by seeking planning permission whereby units can be delivered in tranches or phases, prioritising units where cyclical financing is possible to support cash flow.

9.3 Other risks and likely impacts relating to individual assumptions underpinning this proposed HRA 30-Year Business Plan are set out in Appendix 1.

## **10 Equality Analysis**

10.1 An Equalities and Fairness Analysis (EaFA) is not required at this stage, where the Cabinet is simply being asked to agree to a strategic direction and principles. Various EaFAs will be completed as specific projects are brought forward (for example, new build projects), rents are increased and service changes are proposed.

## **11 Sustainability Implications**

- 11.1 Setting aside £500k in 2020/21 in the HRA Business Plan will help Eastbourne Borough Council move towards meeting its target of becoming carbon neutral by 2030. We will be looking to achieve healthy, well insulated, more affordable homes that our customers want to live and stay in. The opportunity to create homes that require lower heating costs for the tenant, fewer maintenance issues for the authority in the future and the creation of sustainable estates gives us the opportunity to make a difference to the future lives of generations of local people. This Business Plan will provide a 'green platform' and template informing the Councils management and maintenance strategy even beyond the 30 year life-cycle and possibly beyond the needs of our stock and tenants, through testing sustainability pilots, starting in 2020/21.

## **12 Appendices**

- Appendix 1 – HRA 30-Year Business Plan 2019/20 – Assumptions

## **13 Background Papers**

The background papers used in compiling this report were as follows:

- HRA Business Plan Model
- HRA Right to Buy Model