

TITLE OF REPORT: **Housing Revenue Account Asset Management Strategy**

REPORT OF: **Colin Huntington, Strategic Director, Housing, Environment and Healthy Communities.**

Purpose of the Report

1. To update Cabinet on the progress made against the priorities identified in the Interim Housing Revenue Account (HRA) Asset Management Strategy 2021.
2. To request Cabinet to recommend Council approval to progress the implementation of the new HRA Asset Management Strategy, 2022-2027, that will support a statutorily compliant business plan able to fund a compliant, well maintained and sustainable housing stock

Background

3. Cabinet agreed an interim asset strategy for 2021/22 on 23 February 2021. It detailed the steps that needed to be taken in year to prevent the HRA reserves being depleted and falling below the minimum operating balance.
4. The HRA faced a significant affordability challenge that, without review and action, meant it would not be able to meet its future obligations. Whilst an affordable 5-year capital programme was in place, longer term the HRA was projected to be in deficit.
5. Over the past year, we have worked to develop a fit for purpose HRA Business Plan and have done extensive work to understand our costs, investment requirements and future obligations. A new business planning tool has been procured to enable complex and detailed scenario planning to be undertaken, including the modelling of changes to the stock and investment plans. This work has led to the production of a 30 year business plan that is now informed, affordable and fully funded (see separate report on this agenda).
6. The interim asset strategy identified several key issues which were impacting on the HRA sustainability. We have looked in detail at each of these issues and taken remedial actions to address them and ensure financial sustainability.
 - a. Four sections of stock have now been identified as key areas of concern and financial options appraisals have been undertaken on these assets. The appraisals have demonstrated that divesting from

them has a significant positive impact upon HRA sustainability. Further consultation will be undertaken with members and customers on how we progress with divesting from this stock and developing a strategy for decommissioning. Subject to consultation, divest decisions on demolition and remodelling have now been built into the business plan to demonstrate that they are affordable.

- b. Our approach to stock condition surveying has been completely redesigned and relaunched, improving both effectiveness and efficiency. Despite the challenges associated with Covid-19, we have been able to increase the percentage of assets surveyed by almost 10%. Over 40% of the stock is now surveyed and we have filled gaps in our stock coverage and knowledge.
- c. A net present value KPI will be introduced to monitor the health of the stock and support the identification of poor performing assets. Improved performance monitoring of the financial and social performance of the stock will allow for more reactive and effective interventions, including scenario planning within the business plan. The HRA Viability Tool has been extended and integrated into the LION (local indices of need) mapping software. This now allows the performance of the social housing stock to be viewed in a wider context of community and area social benchmarks.
- d. In conjunction with Pennington Choices, a review of the voids process and long-term vacant properties was undertaken. This work has positively impacted on the voids process and the number of vacant properties. Support has also been built into the business plan to assist in tackling works to complex voids, such as structural repairs.
- e. We have reviewed our schedule of rates for investment work and will be moving to a benchmarked national rate provider by the end of March 2022. As an interim measure, our most frequently used rates were refreshed in a benchmarking exercise that generated in the region of a £300m saving over the 30-year business plan projection. The adoption of a schedule of rates provider will generate additional efficiencies and ensure that future financial forecasts are robust and in line with the sector.
- f. Increased stock condition surveying is having a positive impact on the percentage of homes that are non-decent, with the percentage reducing as more information is collected. Better information has allowed for the smoothing of investment spikes, which, alongside the revised schedule of rates, means our investment requirements are achievable and affordable.
- g. Stock condition surveys have now been completed on over 99% of the residential blocks in the HRA. The completion of these surveys mean that their investment needs are now accounted and budgeted for in the business plan. The work to survey the blocks will also support our

response to the Building Safety Bill and the Fire Safety Act, helping ensure that our buildings are safe and sustainable places to live

Proposals

7. Through the work to better understand our costs and the performance of the stock some assets were identified as potentially unsustainable. These properties were modelled in several business planning scenarios, the outcome being that they were uneconomical for the HRA to maintain. This decision is based upon both their financial performance and Net Present Value (NPV).
8. Proposals in the strategy detail that the HRA will need to divest from 5 high rise blocks during the term 2022-2027. Decommissioning and demolishing 4 of them and decommissioning and renovating the fifth to provide a new supported housing offer on a smaller scale.
9. In addition, there will also need to be a review of the Council's purpose-built older persons sheltered housing blocks with a view to modernising this offer. The review will consider reducing the number of blocks where there is a disproportionate supply of this type of asset.
10. Consultation around the proposed decommissioning plans will continue with members, residents and stakeholders throughout the term of the strategy.
11. The Net Present Value of assets will become a key performance indicator to monitor the stock from 2022/23. This will support the approach to making informed and sustainable investment decisions that safeguard the HRA going forward.
12. The aspiration to deliver new Council homes is covered in the strategy. With the assumption of Homes England grant funding, there is provision in the strategy and business plan to develop 40 new social housing units per year for the next 10 years. The strategy will support the forthcoming Residential Growth Strategy and Programme.
13. The strategy will support the Council's approach to building safety and compliance activities, building on the work carried out as part of the Voluntary Undertaking. Funding will support the delivery of additional surveying and planned work activity that will ensure obligations linked to the Building Safety Bill and the Fire Safety Act are successfully delivered. Compliance with the Home Standard, in the form of decent homes, will also be ensured.
14. The proposed strategy allows the HRA to meet its existing obligations, but also moves it to a position where it will be able to meet future challenges such as delivering new social housing, achieving Net Zero Carbon and investing in parts of the stock that have been previously underfunded.

15. Climate change and the low carbon future are both a local and national priority for social housing. The new asset strategy seeks to meet the challenge laid out by the Council's climate emergency declaration.
16. Historically some elements of the HRA's portfolio have received underinvestment. The proposed strategy looks to arrest that by ensuring all investment needs are accounted for going forward. This will ensure that the stock can be maintained in line with the Council's statutory requirements, whilst also meeting the aspirations of members and customers for wider investment.
17. The strategy recommends funding for works to the communal areas of estates, bringing forward for the first time a proposal to invest in and improve the public realm space that is held in the HRA. Budgetary provision is also included for the implementation of the findings of a garage review. These works will help support a move away from decent homes, to a decent neighbourhood approach that meets the aspirations of communities.
18. As part of Digital Inclusion and a push to modernise the sustainable blocks and buildings that are held in the HRA, the CCTV and building management offer will also start to be renewed as part of a £3.6m investment over the next 5 years.
19. The strategy will embed work to correct the balance of responsive repairs verses planned work. The split between responsive and planned repair needs to be addressed so that more work is delivered in a planned way, ensuring value for money and the efficiencies associated with programmed works. Additional support has also been brought forward to support the outcome of the voids review.
20. Consultation on the themes and priorities of the strategy took place with customers in early September 2021. Customers strongly supported the direction of the strategy, stating that they believed it would support communities and that many of the objectives would make them feel more secure in their homes by reducing the fear of crime.
21. Whilst the strategy is set for a 5-year period, 2022 to 2027, it will be reviewed in line with the business plan annually. As a sector there are evolving priorities and pressures and there are still some unknowns around future issues such as the evolution of the Decent Homes Standard. Evolving themes will be reported to the Strategic Housing Board to be reviewed and monitored to ensure that both the strategy and the HRA Business Plan remain informed, sustainable and resilient.
22. The Asset Management Strategy has been jointly developed with the HRA Business Plan 2021-51. The key priorities and outcomes detailed in the strategy have been modelled in the business plan and are fully funded and sustainable, enabling the Council to meet its strategic goals and statutory requirements.

Recommendations

23. It is recommended that Cabinet:

- i) Recommends Council to approve the Housing Revenue Account Asset Management Strategy 2022-2027, as set out in appendix 2, that will support a statutorily compliant business plan able to fund a compliant, well maintained and sustainable housing stock.
- ii) Approves a programme of consultation and awareness raising activities with members, tenants and leaseholders to support the shaping and prioritising of the resultant future investment priorities for the Council's housing stock.
- iii) Approves the commencement of a detailed consultation with members, residents and stakeholders on; a review of the Council's purpose-built older persons sheltered housing blocks and the future options for the high rise blocks identified as uneconomic to maintain.

For the following reasons:

- i) To set a Housing Revenue Account that is not in debit as required under the Local Government and Housing Act 1989 (Part VI) and is able to meet it short- and long-term investment requirements.
- ii) To realise the Council's policies and objectives in relation to the Housing Strategy in order to maintain and enhance Council Housing provision in Gateshead.
- iii) To assist in the delivery of the Council's vision for Gateshead as set out in Making Gateshead a Place where Everyone Thrives.

CONTACT: Simon Chrisp Ext 5461 Kevin Scarlett Ext 5306

Policy Context

1. The proposals support the overall vision for Gateshead as set out in Making Gateshead a Place Where Everyone Thrives including achieving the following outcomes: providing good quality housing with a mix of tenures and affordable options that meet the needs of local people including families and older people enabling them to live healthy lives and to make healthy choices, preventing ill health.
2. The Housing Strategy 2019-2030 identifies clear housing objectives and priorities, puts forward a vision for housing in Gateshead, and sets a framework for how the Council will deliver services and interventions, and work in partnership with others, in a way that will help achieve those objectives using increasingly scarce resources proportionately and effectively. It includes three overarching strategic objectives:
 - Sustainable housing and economic growth
 - Sustainable neighbourhoods
 - Improved health & wellbeing
3. In addition to these overarching objectives one of the key themes embedded in the strategy is supporting the long-term sustainability of the Council's housing stock and the Housing Revenue Account (HRA). Sustainability must be driven by a robust asset management strategy that is supported by informed accurate data and property performance information.

Background

4. The Council agreed an interim asset strategy for 2021/22 on the 23 February 2021. It detailed the steps that needed to be taken in year to prevent the HRA reserves being depleted and falling below the minimum operating balance.
5. The Council owns and manages over 18,000 homes valued at £733.4m; in addition, it has non-domestic assets valued at a further £12.2m. The physical and financial performance of these assets underpins the viability of the Housing Revenue Account (HRA). The quality of its assets and how they perform also directly impacts on customers and the communities that they are part of. A good quality and well-maintained home can significantly impact upon the health, wellbeing and quality of life of our residents.
6. Over the past year, we have worked to develop a fit for purpose HRA Business Plan and have done extensive work to understand our costs, investment requirements and future obligations. This work has led to the production of 30 year business plan that is now informed, affordable and fully funded.

7. The interim asset strategy identified several key issues which were impacting on the HRA sustainability. We have looked in detail at each of these issues and undertaken remedial actions to address them and ensure financial sustainability.

Stock Performance

8. The previous interim HRA Strategy highlighted that the HRA was unsustainable over 30 years and that in the medium term the account would fall beneath the minimum operating balance. Work to better understand our costs, investment and stock condition needs has, alongside a wider business planning exercise, led to the development of an HRA financial plan that is fully costed and does not breach the minimum balance during the life of the plan.
9. To deliver the financial plan, several stock options scenarios have been modelled, based on stock performance and assets' sustainability. These scenarios will need to be delivered over the period of this strategy to ensure the affordability of the financial plan is maintained.
10. The high rise stock is commonly characterised as a liability to the HRA as a result of high investment cost, low demand and high management requirements. The largest section of the stock with a negative net present value is found in the high rise blocks. Business planning exercises have been carried out as part of the work on the HRA business plan. Those exercises demonstrate that divesting from a further five high rise blocks has a positive impact on the business plan's affordability over the next thirty years. The strategy recommends decommissioning and demolishing four high rise blocks and decommissioning and renovating the fifth to provide a new supported housing offer on a smaller scale.
11. In addition, there will also need to be a review of the Council's purpose-built older persons sheltered housing blocks with a view to modernising this offer. The review will consider customer aspirations, the future need and requirements associated with this type of asset. The review will also look at the impact of reducing the number of blocks where there is a disproportionate supply of this type of asset.
12. Divesting from these assets means the plan is able to meet the investment needs of the existing stock, has sufficient capacity to meet emerging priorities and deliver on the development of new social housing stock.

HRA Scenarios	Units	Years
Phase 1. Complete decommissioning and demolition of Sir Godfrey Thompson Court & <u>Crowhall</u> Towers	-	2021 –22
Phase 2. Decommission and demolish two multi storey blocks	- 333	Over three years from 2022/23
Phase 3. Decommission a further multi storey block	- 109	Over three years from 2022/23
Phase 4. Recommission block to create 80 new supported units	+ 80	2023-25
Phase 5. Decommission and demolish purpose built older persons unit	- 41	2023/24
Phase 6. Decommission and demolish two multi storey blocks	- 133	Over three years from 2024/25

13. The Net Present Value (NPV) of assets will become a key performance indicator to monitor the stock from 2022/23. This will support the approach to making informed and sustainable investment decisions that safeguard the HRA going forward.
14. The strategy will support the Council’s approach to building safety and compliance activities, building on the work carried out as part of the Voluntary Undertaking. Funding will support the delivery of additional surveying and planned work activity that will ensure obligations linked to the Building Safety Bill and the Fire Safety Act are successfully delivered.
15. Compliance with the Home Standard and in particular the Decent Homes Standard will also be ensured. Since the interim Asset Strategy was agreed the percentage of surveyed homes has increase and will reach by 2023. The increase in condition data has supported the flattening of forecast investment spikes and ensured the investment requirements for maintaining the stock are affordable within the new business plan.
16. The proposed strategy allows the HRA to meet its existing obligations, but also moves it to a position where it will be able to meet future challenges such as delivering new social housing, achieving Net Zero Carbon and investing in parts of the stock that have been previously underfunded.
17. Climate change and the low carbon future are both a local and national priority for social housing. Gateshead has historically been at the fore of energy efficiency, embracing the benefits of thermally efficient and energy saving homes that support customers and the sustainability of tenancies and assets. The new asset strategy seeks to build on this and meet the challenge laid out by the Council’s Climate Emergency Declaration.

18. Improvements to insulation and energy are included and costed in the strategy along with assumptions about the level of grant funding that will need to be achieved to meet our priorities. Over the life of the HRA Business Plan it is forecast that the Council will need to invest around £265m into insulation measures and new heating technologies as well as securing just over £40m in grant funding.
19. Work has already commenced to build strong relationships with potential funding partners who have access to Energy Company Obligation (ECO) funding. Work with these partners to identify potential schemes for fully funded measures, such as insulation top ups or the replacement of aging insulation systems will further support the HRA.
20. The strategy's focus initially will be on 'fabric first' energy improvements, installing and improving insulation in homes so that they are better able to retain the heat that they generate. But for homes to become zero carbon, in line with the Council's Climate Emergency target, they will require zero carbon heating systems, to replace traditional gas boilers. The Council published its Zero Carbon Heat Strategy in June 2021, which offers the following hierarchy / timescales:
 - i. Connection to a heat network, where feasible - viable and affordable now to 2030
 - ii. Preparation for switch to hydrogen boilers - likely post 2030
 - iii. Heat pumps - restricted to new build properties, until confidence that retrofit to existing homes does not increase fuel poverty, or maintenance/replacement cost to the HRA.
21. The delivery of this strategy is still developing and evolving. While some limited pilot schemes will be undertaken, the strategy states that the Council should, in the short term, continue to monitor how this market develops before committing to a future approach. The strategy commits to working in partnership with the Council's Energy Services Team to explore the opportunity to extend the existing heat networks in the borough and, where possible, to create new ones to increase the number of homes that receive sustainable and affordable heating generated by the Council.
22. A primary focus on delivering works programmes rather than holistically managing assets has, in some instances, led to an unintentional underinvestment in some areas of the stock. The proposed strategy looks to arrest that by ensuring all investment needs are accounted for going forward. This will ensure that the stock can be maintained in line with the Council's statutory requirements, whilst also meeting the aspirations of customers and members for wider investment.

23. The strategy recommends funding for works to the communal areas of estates, bringing forward for the first time a proposal to invest in and improve the public realm space that is held in the HRA. These works will help support a move away from decent homes, to a decent neighbourhood approach that meets the aspirations of communities.
24. Budgetary provision is included for the implementation of the findings of a garage review, looking to tackle the challenges the HRA's garage stock faces. With funding of almost £1m over 5 years, this will include demolition, improvement and the potential for some changes of use.
25. Communal space within blocks has also seen limited spending in recent years. That underinvestment has been assessed through stock condition activities and is now fully reflected in future investment and business planning projections. Work to improve communal spaces within our blocks will commence next year, with a proposed investment target of £3m over the next five years
26. As part of Digital Inclusion and a push to modernise the sustainable blocks and buildings that are held in the HRA, the CCTV and building management offer will also start to be renewed as part of a £3.6m investment over the next 5 years. With residents and stakeholders, we will develop a new offer that will increase the confidence of residents in the Council's blocks by providing buildings that are digitally enabled, safe and secure.
27. The aspiration to deliver new Council homes is included in the strategy. With the assumption of Homes England grant funding, there is provision in the strategy and business plan to develop 40 new social housing units over the next 10 years from 2022/23. The strategy will support the forthcoming Resident Growth Strategy and Programme.
28. The strategy will embed work to correct the balance of responsive repairs verses planned work. Using our business intelligence, scrutiny of data and partnership working we will work to increase the percentage of repairs work that is delivered in a planned way, ensuring value for money and the efficiencies associated with programmed works.
29. Work has successfully been undertaken to reduce the number of voids and measures are in place to reduce the HRA's future exposure to the risks associated with vacant properties. The strategy brings additional resources into capital to support dealing with high value void properties. This will ensure that they are appropriately tackled and the costs for major reinvestment work are accurately captured and delivered in a planned, rather than responsive,

way. Through early intervention, measures will also be introduced to tackle properties that have the potential to become long term voids.

30. The Asset Management Strategy has been jointly developed with the HRA Business Plan 2021-51. Whilst the strategy is set for a 5-year period, to 2027, it will be reviewed in line with the business plan annually. The key priorities and outcomes detailed in the strategy have been modelled in the business plan and are fully funded and sustainable, enabling the Council to meet its strategic goals and statutory requirements.
31. The strategy provides a structure and framework that will allow informed decisions to be made about our assets and our investment priorities. The Strategic Housing Board, which includes customer board members, will provide overall monitoring and review for the HRA Asset Strategy. The Board will receive regular progress reports on the delivery of the strategy, monitor its progress, review and scrutinise the decisions and recommendations that it makes. The Resident Influence Panel will also play a key role in delivering the strategy by providing tenant and leaseholder influence and oversight.

Consultation

32. Consultation has taken place with the Leader and Deputy Leader, and Cabinet Member for Housing.
33. Consultation on the themes and priorities of the strategy took place with customers in early September 2021. Customers strongly supported the direction of the strategy, stating that they believed it would support communities and that many of the objectives would make them feel more secure in their homes by reducing the fear of crime.

Alternative Options

34. There are no alternative options proposed.

Implications of Recommended Option

35. Resources

- a. **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the proposed HRA Asset Management Strategy will support the delivery of a sustainable HRA Business Plan able to meet the investment priorities of the HRA, whilst ensuring the overall HRA reserve balance remains above £3 million.

- b. **Human Resources Implications** – Nil
 - c. **Property Implications** - Capital investment in sustainable HRA assets helps to improve the overall sustainability of the HRA and supports the delivery of corporate priorities under the Thrive agenda
36. **Risk Management Implications** - The development of the HRA Business Plan has included risk assessments and scenario planning around the assumptions, priorities and investments decisions made in the strategy. The proposals are fully funded and affordable. Whilst the strategy is set for a 5-year period, it will be reviewed in line with the business plan annually. As a sector there are evolving priorities and pressures and there are still some unknowns around future issues such as the evolution of the Decent Homes Standard. An ongoing scrutiny and monitoring process will ensure that both the strategy and the HRA Business Plan remain informed, sustainable and resilient.
 37. **Equality and Diversity Implications** – Nil
 38. **Crime and Disorder Implications** – Effective property and building management, condition and repair contribute positively towards community safety.
 39. **Health Implications** – The report supports work that ensures the quality and condition of the HRA's assets and will contribute to the health and wellbeing of the tenants and residents.
 40. **Sustainability and Climate Emergency Implications** – The report contains several measures, which will help deliver a more Sustainable Gateshead and support the delivery of net zero carbon measures for the Council's housing stock.
 41. **Human Rights Implications** – No direct human rights implications.
 42. **Ward Implications** – All wards will be affected by the proposals in this report.

Background Information

Direction on the Rent Standard 2019

The Housing Revenue Account Self Financing Determinations February 2012

Local Government and Housing Act 1989

Localism Act 2011