

22 February 2022

TITLE OF REPORT: **Housing Revenue Account (HRA) and Housing Capital Programme**

REPORT OF: **Darren Collins, Strategic Director, Resources and Digital.
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and Healthy Communities.**

Purpose of the Report

1. Cabinet is asked to recommend to Council:
 - the proposed Housing Revenue Account (HRA) budget for 2022/23.
 - the proposed Housing Capital Programme for 2022/23 and the indicative programme for the period 2023/24 – 2026/27.

Background

2. On 18 November 2021 Council agreed the Housing Revenue Account (HRA) 30-year Business Plan. Overall, the HRA Business Plan is fully costed and does not breach the minimum £3 million balance during the life of the plan (30 years).
3. The plan requires minimum efficiency savings over the medium term of £3.350 million. It is important that the savings are underpinned by a robust delivery plan. On 14 December 2021 Cabinet approved the Budget Approach 2022/23 to 2024/25. The report outlined a Priority Zero Based Budget Challenge, and a Priority Based Transformation Programme which includes the Housing Improvement Plan.
4. The Local Government and Housing Act 1989 (Part VI) states that the Council has a duty to prevent a debit balance on the Housing Revenue Account.
5. On the 27 January 2022, Council agreed the Housing Revenue Account (HRA) Rent and Service Charges 2022/23. The rent increase for 2022/23 is 4.1% in line with the rent standard of CPI as of September 2021 (3.1%) plus an additional 1%. Service charges are generally based on full cost recovery.
6. The Housing Capital Programme is a five-year rolling programme reviewed annually. The programme is supported from resources available within the HRA and therefore considering the HRA and the Housing Capital Programme together allows the Council to consider the choices necessary to maintain and enhance housing stock in the future. The financial implications of the programme are incorporated into the HRA Business Plan. The Housing Capital Programme is also incorporated into the Council's overall Capital Programme (agenda item 7).

7. Recognising the importance of new affordable housing supply in Gateshead, and the challenges facing the HRA in making a significant contribution to this supply the Housing Capital Programme includes the delivery of 244 units over the next 5 years.

Proposal

8. The proposed Housing Revenue Account budget 2022/23 will deliver a balanced budget. This is set out in Appendix 2 together with indicative budgets for the subsequent four-year period 2023/24 – 2026/27.
9. The proposed Housing Capital Programme over the next five years 2022/23 to 2026/27 is set out in Appendix 3 and provides for investment of £152.575m. In 2022/23 the proposed Capital Programme totals £22.281m of which £16.119m will be met from the HRA. The Programme will be kept under regular review by Cabinet to ensure that investment plans remain affordable.

Recommendations

10. Cabinet is asked to recommend to Council:
 - (i) The Housing Revenue Account as set out in Appendix 2.
 - (ii) The Housing Capital Programme for the five years 2022/23 to 2026/27 as set out in Appendix 3.

For the following reasons:

- (i) To set a Housing Revenue Account for 2022/23 that is not in debit a required under the Local Government and Housing Act 1989 (Part VI).
- (ii) To realise the Council's policies and objectives in relation to the Housing Strategy to maintain and enhance Council Housing provision in Gateshead.
- (ii) To assist in the delivery of the Council's vision for Gateshead as set out in Making Gateshead a Place where Everyone Thrives.

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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).

Background

4. On 18 November 2021 Council agreed the Housing Revenue Account (HRA) 30-year Business Plan. Overall, the HRA Business Plan is fully costed and does not breach the minimum £3 million balance during the life of the plan (30 years). However, over the long term, to incorporate all the cost pressures and anticipated capital investment, including new social housing stock, borrowing will need rise significantly above the current levels.
5. On 14 December 2021 Cabinet approved the Budget Approach 2022/23 to 2024/25. The report outlined a Priority Zero Based Budget Challenge, and a Priority Based Transformation Programme. Whilst the focus of the report and approach was on the Medium Term Financial Strategy Funding Gap of £45m in line with the HRA Business Plan there is also a need to deliver minimum HRA efficiency savings of £3.350m over the medium term and a recognition that the key principles apply equally to the HRA.
6. The Housing Improvement Programme was identified as one of the priority based transformation review areas. The scope of the programme is wide ranging and will focus on delivering services differently to manage demand and to ensure the Council's housing functions and responsibilities are 'fit for purpose', fully compliant with legislation and regulation, are offering better value for money and can achieve improved customer satisfaction.
7. The rules governing the HRA were established pursuant to the Local Government and Housing Act 1989 and require the Council to:

- a. Formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council can make at the time, ensure the HRA does not show a debit balance.
- b. Determine a strategy that is designed to ensure the HRA is in balance taking one year with another.
- c. Ensure, that as a ring-fenced account, the costs of managing and maintaining its homes, including debt charges and administration costs, are met from HRA income.

HRA Business Plan

8. The HRA Business Plan sets the Council's long-term investment strategy to maintain the quality of its housing stock. The plan is reviewed, at least, annually and uses current levels of income and expenditure information and projects this for the next 30 years applying several key assumptions in relation to the anticipated stock changes arising from right to buy sales, acquisitions and new build and regeneration plans, the number of void properties, the policy on rent and service charge increases, repairs and maintenance and property management costs, capital investment requirements based on stock condition information and forecast borrowing costs.
9. In previous years a significant number of challenges have been placed on the HRA Business Plan because of:
 - Legislative change such as the impact of the Housing and Planning, and Welfare Reform Acts.
 - The imposition of a social rent cut of 1% per year, for 4 successive years commencing April 2016.
 - Increased buildings compliance and regulatory requirements, particularly post-Grenfell and;
 - New targets for carbon neutrality.
10. In addition, there is a need to:
 - a. Address uneconomic and poor performing housing stock. Stock condition and demand information confirms that the required expenditure on some schemes over the short and longer term significantly exceeds any income from those schemes due to poor or no demand, coupled with the need for high value investment works.
 - b. Identify operational efficiencies and more effective ways of working to ensure services are providing value for money and maximising HRA performance.
 - c. Continue to invest in the existing stock and bring forward new affordable housing.

Budget Position 2021/22

11. The 2021/22 HRA Budget is currently projected to overspend by £1.482m which represents an increase in the use of reserves required. The main variances relate to addressing the void backlog which will have a positive impact upon income going forward and also the cost of the remedial compliance works that have been identified through the compliance reviews. These are detailed in Appendix 2.

Budget Proposal 2022/23

12. The budget proposal for 2022/23 has been prepared considering known changes to housing stock numbers, ongoing management and maintenance requirements, proposed investment needs and assumptions around pay and inflationary increases.
13. The budget proposal takes account of the continuing detrimental impact of Welfare reform on rent collection and tenancy sustainability. As at 2 January 2022, 6,355 (35%) of council tenants were in receipt of Universal Credit (UC) payments, this will continue to increase as new claims or change of circumstances are submitted. Rent collection rates for UC claimants is 97.33% compared to 100.43% for other tenants.
14. Void loss and tenancy turnover remain a challenge and the resultant loss of income for the HRA. A major review of the end to end voids process is underway together with a review of the associated lettings and allocations systems and practices. The outcome of this work will be to identify the necessary measures to reduce void loss, and to allocate and enable occupation of homes more rapidly and effectively. ICT systems are currently in development to support the effectiveness of the delivery team and their resources. Additional investment is included in the proposed budget 2022/23 to enable voids to be reduced to a manageable level and embed the outcomes of the review.
15. Work to identify and implement improvements to repairs and maintenance services has commenced. Learning is currently being gathered from employees, together with a detailed understanding of the reasons for declining customer satisfaction, as well as a forensic review of existing processes, systems, ways of working and the impact of relevant policies. Testing changes to improve the service will take place over the coming months, with any permanent changes embedded during 2022/23. It is expected that the new operating model and resultant improvements will have a significant impact on achieving the required level of HRA efficiencies and savings.
16. In relation to compliance the voluntary undertaking with the Regulator of Social Housing was successfully completed in November 2021. In coming out of the voluntary undertaking the Council has agreed with the Regulator that there will be a continuing and robust Member led governance environment for the reporting of buildings compliance and safety, the identification of any risks and resultant mitigations, performance monitoring and oversight. In addition, there needs to be a continued priority in the funding of measures to ensure and maintain overall buildings compliance and safety. The proposed budget 2022/23 includes investment to continue to enable identified remedial works to be completed.
17. A contingency has been included within the HRA Business Plan for the next and subsequent 4 financial years to cover any future liabilities and unforeseen pay and price increases.
18. The proposed HRA budget 2022/23 as detailed in Appendix 2 will deliver a balanced budget.
19. The indicative budget for 2023/24 shows a deficit position due to contributions planned to the Major repairs reserve for costs associated with decisions concerning

the stock options in relation to both high rise blocks and older persons accommodation and this will be subject to review.

Housing Capital Programme 2022/23 – 2026/27

20. Capital investment in the HRA is funded from the Major Repairs Reserve through a combination of the depreciation charged each year to the HRA and using additional voluntary HRA revenue contributions where possible to maximise the level of planned investment in the stock.
21. There are significant capital investment requirements over at least the next 5 years if the Council is to achieve its requirements and ambitions in the key areas of maintaining regulatory and buildings compliance such as decent homes and in maintaining the safety of high rise blocks; in achieving carbon reduction targets; securing catch-up investment in wider HRA assets and responsibilities such as environmental and 'street scene' requirements, garages, open spaces and communal areas; and in continuing to maintain / or increase social housing stock provision in Gateshead. Investment is also identified to digitally transform how blocks are managed, by improving security and supporting the review of high rise living.
22. The proposed Housing Capital Programme for the period from 2022/23 to 2026/27 is set out in Appendix 3. It is estimated that £115.733m of the £152.575m funding requirement will be met from within the Major Repairs Reserve to support capital investment within the HRA over the next five years which will be supplemented using external funding and HRA capital receipts.
23. The capital programme is aligned to the HRA Asset Management Strategy and includes the following investment over the next 5 years:
 - £65m investment in undertaking estate based major works in accordance with the Decent Homes standard, including the replacement of kitchens, bathrooms and electrical improvements, a £12.5m heating improvements programme and £3.5m to continue the window and door replacement programme.
 - £17.2m investment in general stock improvements, including essential works to upgrade communal services and communal areas, CCTV and door entry systems upgrades as well as the continuing provision of major and minor adaptation works to homes.
 - £2m investment in garages and wider estate improvements.
 - £4.2m investment in building safety improvements to ensure continued compliance with legislation.
 - £63.1m investment in new housing, estate regeneration and delivery of the stock options appraisals.
24. The Capital Programme will continue to be reviewed regularly to reflect the progress on committed projects and the availability of resources within the HRA to support capital investment.
25. Recognising the importance of new affordable housing supply in Gateshead, and the challenges facing the HRA in making a significant contribution to this supply, a proposed Housing Development Strategy and delivery programme will be presented to Cabinet shortly. This proposed programme will include a planned

HRA funded new build programme over a rolling 3-year period, to be reviewed annually as part of the annual refresh of the HRA Business Plan. The focus over the next 12 months will be the completion of the HRA funded scheme at Whitley Court, as well as the identification of a HRA funded new homes delivery programme commencing 2023/24. There is provision within the proposed Capital Programme 2022/23 to 2026/27 to deliver 200 new homes in addition to Whitley Court.

Consultation

26. Consultation has taken place with the Leader and Deputy Leader, and Cabinet Member for Housing.

Alternative Options

27. There are no alternative options proposed.

Implications of Recommended Option

28. Resources

- a. **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the financial implications are reflected in Appendices 1, 2 and 3.

The proposed 2022/23 HRA budget (Appendix 2) will deliver a balanced budget. As at 31 March 2022 the HRA reserve is projected to be £24.330m. The 30-year HRA Business plan is sustainable with a minimum balance of £3m of reserves maintained per annum.

The Housing Improvement Plan is a Priority Transformation review area for the Council and will drive forward savings and efficiencies to deliver the required HRA medium term savings identified in the HRA Business Plan and contribute to the delivery of the Council's budget approach.

- b. **Human Resources Implications** – Nil.

- c. **Property Implications** – Capital investment in HRA assets helps to improve the overall sustainability of the HRA and supports the delivery of corporate priorities under the Thrive agenda. The property implications of individual schemes will be considered and reported separately.

29. **Risk Management Implications** – The added risks arising from self-financing and welfare reform mean that the Council must continue to manage and maintain its housing stock from the rents collected. The 30-year HRA business plan is sustainable, based on current assumptions, but this will continue to be monitored to ensure that decisions are made, where appropriate, to enable the housing stock to be maintained in the future.

30. **Equality and Diversity Implications** – Nil

31. **Crime and Disorder Implications** – Nil

32. **Health Implications** – Nil
33. **Sustainability and Climate Emergency Implications** – The report contains a number of measures, which will help deliver a more Sustainable Gateshead and support the HRA Asset Strategy which includes carbon neutrality targets for the Council's housing stock.
34. **Human Rights Implications** – Nil
35. **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

Welfare Reform Act 2016

Local Government and Housing Act 1989

HRA Budget 2022/23 to 2026/27

	Budget 2021/22 £'000	Projected 2021/22 £'000	Variance 2021/22 £'000		Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000	Budget 2026/27 £'000
Dwelling rents (gross)	(73,512)	(73,228)	284	Voids/Decommissioned Units	(75,526)	(78,927)	(83,162)	(82,745)	(84,078)
Non-dwelling rents (gross)	(1,312)	(1,346)	(34)		(1,345)	(1,345)	(1,345)	(1,345)	(1,345)
Charges for services and facilities	(4,127)	(4,345)	(218)		(4,426)	(4,601)	(4,757)	(4,809)	(4,907)
Water & Other Income	(931)	(890)	41	Void loss	(977)	(1,025)	(1,060)	(1,090)	(1,090)
HRA investment income	(204)	(25)	179	Reduced Cash Balances	0	0	0	0	0
Total Income	(80,086)	(79,834)	252		(82,274)	(85,898)	(90,325)	(89,989)	(91,420)
Supervision and Management	27,142	27,138	(4)		27,661	27,828	27,953	27,553	28,215
Repairs and Maintenance	23,269	24,973	1,704	Voids and Compliance	25,643	24,922	24,882	24,745	24,710
Interest on borrowing	12,207	12,072	(135)	Borrowing costs	12,010	12,078	11,914	11,854	11,831
Capital Programme Funding	21,671	21,286	(385)	Capital slippage	16,119	30,683	23,127	20,797	25,006
Increased provision for bad debt	700	750	50		768	794	827	822	833
Debt management expenses	70	70	0		73	77	80	82	84
Total Expenditure	85,059	86,289	1,231		82,274	96,383	88,783	85,853	90,680
Net Operating Cost/(Surplus)	4,973	6,455	1,483		(0)	10,485	(1,541)	(4,136)	(741)
HRA Reserves									
Opening Balance	30,785	30,785			24,330	24,330	13,845	15,386	19,522
Net Operating Cost for the year	4,973	6,455	1,483		(0)	10,485	(1,541)	(4,136)	(741)
Closing Balance	25,812	24,330	(1,483)		24,330	13,845	15,386	19,522	20,263

Housing Capital Programme 2022/23 to 2026/27

Housing Capital	Description	2022/23	2023/24	2024/25	2025/26	2026/27	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Improvement Works							
Aids & Adaptations	To carry out identified adaptations to Council Dwellings to enable people to live safely and independently within their home.	1,500	1,500	1,500	1,500	1,500	7,500
Communal Mechanical & Electrical works	Essential works to upgrade communal services in accordance with stock condition, building safety & compliance needs.	312	543	566	570	625	2,616
Digital Transformation	Transformational upgrade work to block building management services such as CCTV and door entry services	700	700	702	700	804	3,606
Environmental & Estate Improvement	Improvements to the public realm in and round estates	101	100	103	100	715	1,119
Garage Improvement Programme	Essential works to improve sustainable garage blocks, demolish unviable stock and investigation conversion & change of use where practicable	50	200	200	220	340	1,010
Block communal improvements	Improvements to the communal areas and spaces in blocks	629	661	686	702	803	3,482
Total Improvement Works		3,293	3,704	3,756	3,792	4,787	19,332
Building Safety							
Building safety improvements	Essential work to meet building safety and compliance obligations	890	790	877	827	250	3,635
Safety & Security	Work to install and renew smoke and CO detection.	66	56	67	68	93	350
HRA Commercial Property Improvements	Targeted interventions in the HRA commercial portfolio to meet landlord obligations	50	50	50	50	50	250
Total Building Safety Works		1,006	896	995	946	393	4,235
Major Future Works							
Energy & Carbon Net Zero	Delivery of work packages to improve insulation, install green technology and energy solutions that will support achieving Net Zero.	0	0	0	0	4,777	4,777
Major Investment Scheme	Targeted Transformation investment work	1,985	1,972	0	0	0	3,958
Domestic Heating Improvements	Replacement of failed and obsolete heating systems, upgrading them with more efficient solutions to help address fuel poverty issues.	2,343	2,444	2,511	2,564	2,672	12,534
Door & Window replacements	Continuation of the window replacement door replacement programme. Focused on medium rise blocks, but also picking up 'one off' whole house replacements	645	748	958	798	350	3,499

Decent Homes	Continuation of planned estate-based improvement work to the Council's housing stock in accordance with decent homes and building safety principles, prioritised using stock condition data.	4,503	5,024	5,497	6,068	6,535	27,628
Contractual Obligations	Preliminary costs associated with schemes	2,000	2,000	2,000	2,000	2,000	10,000
Fixed Budget Fees	Continuation of the rolling programme of condition surveys to enable effective asset management, options appraisals and the development of future investment schemes.	550	550	550	550	550	2,750
Total Major Future Works		12,027	12,738	11,516	11,980	16,884	65,146
Expectational Works							
Option appraisal	Delivery of option appraisal outcomes - acquisition / conversion / demolition of unsustainable HRA assets.	1,123	8,665	3,038	2,374	561	15,762
Felling Regeneration	The acquisition, demolition and clearance costs associated with the Felling regeneration project.	1,574	1,983	0	0	0	3,556
Total Exceptional Works		2,697	10,648	3,038	2,374	561	19,318
Housing Developments							
New Build/Acquisition - Various	Investment to create new Council homes.	3,015	9,803	11,047	9,366	10,591	43,823
Total Housing Developments		3,015	9,803	11,047	9,366	10,591	43,823
Other Capital							
ICT refresh	Replacement of IT Hardware & Software licences	244	38	273	154	11	721
Total Other Capital		244	38	273	154	11	721
Total Capital Programme		22,281	37,828	30,626	28,613	33,228	152,575
Funded by							
Major Repairs Reserve Contribution		(16,119)	(30,684)	(23,127)	(20,797)	(25,006)	(115,733)
HRA Capital Receipts		(5,410)	(5,602)	(5,705)	(5,767)	(5,905)	(28,388)
Grant Funding		(752)	(1,542)	(1,794)	(2,049)	(2,317)	(8,454)
Total Funding		(22,281)	(37,828)	(30,626)	(28,613)	(33,228)	(152,575)