

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

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Purpose of the Report

1. Cabinet is asked to recommend to Council:
 - the proposed Housing Revenue Account (HRA) budget for 2021/22.
 - the proposed Housing Capital Programme for 2021/22 and the indicative programme for the period 2022/23 – 2025/26.

Background

2. On the 17 November 2020, Cabinet approved the re-integration of the management and maintenance of the Council's housing stock into the Council from April 2021. This will also involve the consolidation of wider housing functions and responsibilities into a new integrated housing service.
3. The significant changes in the provision of the Council's operational as well as strategic housing functions and services will enable the planning and implementation of new and more effective ways of working and the identification of the revenue efficiencies necessary to support a short and longer term viable and fully funded HRA Business Plan.
4. Work is also underway in producing a new 5 and 30-year HRA Asset Management Strategy and Investment Plan. This strategy and related investment plan will consider all investment risks and challenges and play a significant part in producing a viable and fully funded HRA Business Plan for both the short and longer term.
5. 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.
6. On the 21 January 2021, Council agreed the Housing Revenue Account (HRA) Rent and Service Charges 2021/22. The rent increase for 2021/22 is 1.5% in line with the rent standard of CPI as of September 2020 (0.5%) plus an additional 1%. Service charges are generally based on full cost recovery.
7. 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).

8. 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 new Affordable Housing Plan and Programme will be presented to Cabinet for consideration and approval at its meeting in March 2021.

Proposal

9. The proposed Housing Revenue Account budget 2021/22 requires the use of £4.973m reserves. This is set out in Appendix 2 together with indicative budgets for the subsequent four-year period 2022/23 – 2025/26.
10. The proposed Housing Capital Programme over the next five years 2021/22 to 2025/26, Appendix 3 provides for investment of £104.268m. In 2021/22 the proposed Capital Programme totals £25.603 of which £21.671m will be met from the HRA. The Programme will be kept under regular review by Cabinet to ensure that investment plans remain affordable.

Recommendations

11. 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 2021/22 to 2025/26 as set out in Appendix 3.

For the following reasons:

- (i) To set a Housing Revenue Account for 2021/22 that is not in debit as 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 in order 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 17 November 2020 Cabinet approved the re-integration of the management and maintenance of the Council's housing stock into the Council from April 2021. This will also involve the consolidation of a number of additional housing functions and responsibilities. This major change in the provision of its operational as well as strategic housing functions and services will enable the planning and implementation of new and more effective ways of working, as well as the identification of the revenue efficiencies necessary to support a short and longer term viable and fully funded HRA Business Plan.
5. 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.
6. It is essential that the 30-year HRA Business Plan considers all risks and challenges, including the need for efficiencies, and ensures that any investment decisions, including any HRA funded new build, are affordable both in the short and longer term.

HRA Business Plan

7. 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 know 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.
8. 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 including new targets for carbon neutrality.
9. In addition, there is a need to:
 - a. Address uneconomic and poor performing housing stock in Gateshead. 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. There is an outstanding need to appraise all available options for these schemes over the coming months.
 - b. Identify operational efficiencies and more effective ways of working to ensure they are providing value for money and maximising HRA performance, particularly in relation to voids, income collection and day to day maintenance.
10. The current HRA Business Plan shows reserves to be exhausted by 2029/30, and the plan falling into a cumulative deficit. This needs to be addressed at an early opportunity to ensure a statutorily compliant business plan, and one that is viable, stress-tested and able to fully fund capital investment requirements over the short and longer term. Work is underway in producing a new 30-year HRA Business Plan and specialist consultants have been commissioned to support this work, including the building of a new fit for purpose business plan modelling tool, consistent with best practice within the wider social housing sector.

Budget Position 2020/21

11. The 2020/21 HRA Budget is currently projected to underspend by £3.201m which represents a reduction in the use of reserves required. The main variances relate to a reduction in the level of income which is due to an increase in the void loss offset by a reduction in borrowing costs resulting from more preferential interest rates and slippage in the capital programme. This is detailed in Appendix 2.

Budget Proposal 2021/22

12. The budget proposal for 2021/22 has been prepared considering known changes to housing stock numbers, ongoing management and maintenance requirements, proposed investment needs and assumptions in line with the Council's medium-term financial plan 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 6 January 2021, 5,503 (30%) of council tenants were in receipt of UC payments, this will continue to increase as new claims or change of circumstances are submitted. Rent collection rates for UC claimants is 96.88% compared to 99.95% 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 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.
15. Work is underway to complete a number of improvements to repairs and maintenance services. The scope of these improvements are wide ranging including a review of the stores function, out of hours working arrangements and work scheduling and planning. It is anticipated that these improvements will be implemented during 2021/22 and will have an impact on future HRA efficiencies and savings.
16. The proposed HRA budget 2021/22 as detailed in Appendix 2 requires the use of £4.973m of HRA reserves. The use of reserves is largely driven by the HRA capital programme and the need to ensure buildings compliance and ongoing investment in the existing housing stock.
17. A contingency of £3m per annum has been included within the HRA Business Plan for the next and subsequent 4 financial years to cover any future legacy liabilities and unforeseen pay and price increases.

Housing Capital Programme 2021/22 – 2025/26

18. 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.
19. 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 and security 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.

20. The proposed Housing Capital Programme for the period from 2021/22 to 2025/26 is set out in Appendix 3. It is estimated that £89.934m of the £104.268m 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. The planned investment in the Housing Capital Programme is flexible and is subject to ongoing review especially as more detailed knowledge of the housing stock develops as a result of on-going stock condition surveys.
21. Improving knowledge and data relating to stock condition also confirms significant ongoing demands on the HRA over the full 30-year term. It is currently projected that the HRA will move into an overall deficit position in 2029/30. The short- and longer-term capital investment requirements will be considered as part of the emerging HRA asset management strategy.
22. At this stage it is envisaged that over the next five years the investment will include:
 - £74m investment in undertaking estate based major works in accordance with the Decent Homes standard, including the replacement of kitchens, bathrooms and electrical improvements, a £3.8m boiler replacement programme and £2.8m to continue window replacement programme and door entry system upgrades.
 - £13.7m investment in general stock improvements, including the renewal/refurbishment of lifts, communal electrics and investment in external insulation to improve thermal efficiency of existing dwellings as well as the continuing provision of major and minor adaptation works to homes.
 - £4.8m investment in building safety improvements including works to address required fire safety improvements in response to ongoing risk assessments.
 - £11.5m investment in previously approved new build/acquisition and estate regeneration.
23. 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.
24. 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 Affordable Housing Plan and Programme will be presented to Cabinet in March. This proposed affordable housing 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. As this is still an emerging strategy the implications of this are currently not provided for in the rolling programme considered in Appendix 3.
25. Given the impact newbuild schemes could have on the HRA Business Plan, and the need to consider other investment requirements arising from the existing housing stock, additional borrowing powers will be considered as part of the overall Business Plan review. Any additional borrowing will need to be prudent, affordable and sustainable within the HRA in line with the Capital Strategy and Prudential Indicators. Opportunities will also continue to be explored to attract external funding, such as Homes England grant funding to support HRA led new build.

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 2021/22 HRA budget (Appendix 2) requires the use of £4.973m from the HRA reserves. As at 31 March 2021 the HRA reserve is projected to be 29.785m. The current HRA 30-year Business plan currently anticipates that the HRA reserve level will fall below the minimum £3m reserves level in 2029/30.

The budget 2021/22 includes efficiencies of £0.377m related to a reduction in the void loss resulting from the ongoing transformation work which enables the HRA to be more sustainable over the medium term. Management and supervision efficiencies of £0.493m have been reinvested to strengthen the strategic housing function and provide capacity, some of which is one off, to effect further change and efficiencies following the re-integration of the management and maintenance of the housing stock into the Council.

- 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 being updated to enable this to be monitored and to ensure that decisions are made, where appropriate, to ensure the housing stock is 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 review of 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 2021/22 to 2025/26

	Budget 2020/21 £'000	Projected 2020/21 £'000	Variance 2020/21 £'000		Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000
Dwelling rents (gross)	(72,776)	(71,879)	897	Voids/Decommissioned Units	(73,512)	(74,893)	(76,791)	(78,653)	(79,725)
Non-dwelling rents (gross)	(1,325)	(1,312)	13		(1,312)	(1,319)	(1,325)	(1,332)	(1,345)
Charges for services and facilities	(3,983)	(3,716)	267		(4,127)	(4,179)	(4,263)	(4,345)	(4,404)
Water & Other Income	(1,115)	(946)	169		(931)	(950)	(973)	(998)	(1,027)
HRA investment income	(250)	(270)	(20)		(204)	(176)	(164)	(158)	(109)
Total Income	(79,449)	(78,123)	1,326		(80,086)	(81,516)	(83,517)	(85,486)	(86,609)
Supervision and Management	25,874	25,638	(236)		27,142	27,950	28,446	28,930	29,284
Repairs and Maintenance	23,067	23,100	33		23,269	23,586	24,055	24,513	24,847
Interest on borrowing	13,468	12,624	(844)	Borrowing costs	12,207	12,077	12,077	11,824	11,784
Capital Programme Funding	20,721	17,240	(3,481)	Capital slippage	21,671	17,818	17,945	16,225	16,275
Increased provision for bad debt	700	700	0		700	750	769	787	840
Debt management expenses	70	70	0		70	71	73	75	77
Total Expenditure	83,900	79,373	(4,527)		85,059	82,253	83,366	82,354	83,107
Net Operating Cost/(Surplus)	4,451	1,250	(3,201)		4,973	737	(151)	(3,131)	(3,502)
HRA Reserves									
Opening Balance	31,035	31,035			29,785	24,812	24,075	24,226	27,358
Net Operating Cost for the year	4,451	1,250	(3,201)		4,973	737	(151)	(3,131)	(3,502)
Closing Balance	26,584	29,785	3,201		24,812	24,075	24,226	27,358	30,860

Housing Capital Programme 2021/22 to 2025/26

Housing Capital	Description	2021/22	2022/23	2023/24	2024/25	2025/26	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Improvement Works							
Lift Replacement/Refurbishment	Planned works to replace lifts within the Council's housing stock in accordance with their lifecycle, building safety & compliance requirements.	500	500	500	500	500	2,500
Replacement of Communal Electrics	Essential works to upgrade communal electrical circuits and services in accordance with stock condition, building safety & compliance needs.	696	300	300	300	300	1,896
T-Fall insulation	Targeted insulation and ventilation work to reduce the risk of condensation, disrepair and litigation claims.	90	40	30	20	20	200
Warden Call Renewal	Replacement of equipment to utilise Gateshead Council's Care Call scheme, an emergency service which supports older, disabled and vulnerable people allowing them to live safely and independently in their home.	240	200	200	200	200	1,040
Aids and 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
Neighbourhood Improvements	Improvements to neighbourhoods that reduce risk and asset liability and have a positive impact on helping communities thrive.	170	100	100	100	100	570
Total Improvement Works		3,196	2,640	2,630	2,620	2,620	13,706
Building Safety Works							
Fire Safety Work / Compliance	Works to address required fire safety improvements in response to ongoing risk assessments.	1,134	500	400	400	400	2,834
Equality Act Works	Improvements to ensure that residents and visitors can safely access, use and move around building and blocks	54	100	100	100	100	454
Basement Improvements	Targeted work upgrade and improve basement areas to ensure they are free from disrepair and meet our requirements for building safety.	100	150	150	100	50	550

Building Sustainability Improvements	Targeted budget to tackle structural voids and interventions linked to the Housing Health & Safety Rating System, Fitness and disrepair litigation	-	240	240	240	240	960
Total Building Safety Works		1,288	990	890	840	790	4,798
Major Future Works							
Decent Homes - Investment Programme	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.	9,844	9,575	10,175	9,615	9,715	48,924
Programme Management	The allocation is used to fund the programme management costs and associated fees relating to the delivery of all capital schemes within the Housing Capital Programme.	550	550	550	550	550	2,750
Strategic Maintenance	This scheme carries out significant capital works identified by the repairs and maintenance contractor, undertaking improvements to help reduce the level of responsive repairs.	2,000	2,000	2,000	2,000	2,000	10,000
Window & Door Entry Replacements	Continuation of the window replacement and door entry system replacement programme. Focused on medium rise blocks, but also picking up 'one off' whole house replacements	751	500	500	500	500	2,751
Option Appraisal Recommendations	The undertaking of recommendations that have been approved following the completion of an asset options appraisal. This could involve work to invest, improve, convert, repurpose or divest in property(s).	-	150	500	1,000	1,200	2,850
Total Major Future Works		13,145	12,775	13,725	13,665	13,965	67,275
Contingent Major Works							
Timber Replacements	Planned timber renewals/replacement identified through the prior to painting programme.	100	100	100	100	100	500
Back Boiler Renewal and Replacements	Replacement of failed and obsolete boilers, upgrading them with more efficient solutions to help address fuel poverty issues.	750	750	750	750	750	3,750
Stock Condition Surveys and Scheme Design	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 Contingent Major Works		1,400	1,400	1,400	1,400	1,400	7,000
Housing Developments							
Estate Regeneration	The acquisition, demolition and clearance costs associated with the Felling regeneration project.	1,000	1,500	1,800	200	-	4,500
New Build/Acquisition - Various	Investment to provide additional dwellings within the Council's HRA.	5,574	1,415	-	-	-	6,989
Total Housing Developments		6,574	2,915	1,800	200	-	11,489
Total Housing Capital Budget		25,603	20,720	20,445	18,725	18,775	104,268
Funded by							
Major Repairs Reserve Contribution		-	-	-	-	-	-
		21,671	17,818	17,945	16,225	16,275	89,934
HRA Capital Receipts		-	-	-	-	-	-
		2,500	2,500	2,500	2,500	2,500	12,500
Grant Funding		-	-	-	-	-	-
		1,432	402	-	-	-	1,834
Total Funding		-	-	-	-	-	-
		25,603	20,720	20,445	18,725	18,775	104,268