

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 advise Cabinet as to progress in developing a new Housing Revenue Account (HRA) asset management strategy and the timeline for its final drafting and subsequent consideration for approval later in the year.
2. To seek Cabinet approval for a programme of consultation and awareness raising activities with members, tenants and leaseholders as to the emerging strategy and the resultant potential future investment priorities for the Council's housing stock.
3. To seek Cabinet approval for the commencement of a detailed appraisal of options for the future investment and management of identified currently uneconomic and low demand homes.

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. To support the transformation an asset management strategy for the HRA needs to be developed and implemented. This strategy will identify the investment requirements and priorities not just for Council homes, but also the wider HRA liabilities and responsibilities such as garages, 'street scene' management and the maintenance of open spaces.
4. The asset management strategy will shape the production of a rolling new 5 and 30-year HRA Capital Investment Plan. This strategy and related investment plan will identify the short (5 year) and longer terms (30 year) investment risks, challenges and priorities for investment. The development of

an asset management strategy and associated investment plan is key to the development and subsequent production of a rolling 5 and 30-year HRA Business Plan. The HRA Business Plan will need to be able to evidence that it is able to fund any subsequently approved asset management strategy and investment plan. Both documents sit 'hand in glove'.

5. The Local Government and Housing Act 1989 (Part VI) states that the Council has a duty to prevent a debit balance on the HRA. In addition, there is always a need to maintain a minimum level positive HRA balance to allow contingency funding for any in-year funding of unforeseen and / or emergency works.
6. The HRA is currently faced with significant affordability challenges and at present cannot meet all its future obligations without review and action to ensure its long-term sustainability. A viable short term, 5-year HRA budget and capital programme has been produced for approval by Cabinet. However, longer term, the HRA is projected to be in deficit. Action now over the coming months will be taken to address this, including the production of the asset management strategy.
7. Work has commenced, with the support of Pennington Choices, on developing the asset management strategy. However, 4 key activities need to be undertaken over the coming months before a final draft can be presented for approval by Cabinet:
 - a) Stock condition: what is known about the condition of the Council 's homes and wider HRA assets has improved significantly. Work is continuing to improve stock condition knowledge and information, and it is intended to have an overall stock condition survey of 44% by September 2021. The more is known about the housing stock, the more informed the asset management strategy and associated investment plan will be.
 - b) Option appraisal: work in developing the asset management strategy has begun to identify the most economically inefficient housing stock. That is the investment required over a 30-year period for certain schemes is unlikely to be recovered from the rental income from these schemes. Consideration therefore needs to be given to the options available to the Council for their future investment and management.
 - c) Consultation: there is a need to consult members, tenants and leaseholders on the emerging asset management strategy and any future priorities for investment. Tenant consultation is a regulatory requirement, and the White Paper 'Charter for Social Housing Residents' confirms a strengthened expectation that tenants will be involved in the shaping of plans to ensure the safety and security of their home.

- d) HRA Business Plan: a review of the overarching HRA Business Plan is underway. The intention is to present a new business plan for approval by Cabinet alongside the asset management strategy. The funding for the asset management strategy and investment plan comes from the HRA. It is essential therefore that the review of the business plan is informed by the asset management strategy and vice versa.
8. Further to the known investment challenges facing the Council's housing stock, particularly arising from the improving stock condition surveys, there are new and additional obligations that will need to be accommodated within the HRA. These include the investment needed to meet the challenges associated with a low carbon future; likely changes that will arise from the Building Safety Bill; changes in housing regulation from the Social Housing White Paper; an updating of the Decent Homes Standard and sections of the stock that perform poorly and are a drain on the HRA.
 9. Current financial 30-year forecasts for the HRA are being reviewed as part of the work to develop the asset management strategy. The review shows that in addition to overall unaffordability of the current required capital investment costs, there are also longer-term investment peaks that need to be addressed to make them affordable.
 10. The emerging strategy is proposing to prioritise several objectives including:
 - Improving, and subsequently maintaining, the Council's understanding of the condition, performance, maintenance and investment costs of its HRA assets particularly by closing gaps in knowledge and data as soon as possible.
 - Setting a target for improving the net present value of the stock and addressing any uneconomic housing stock by appraising options and identifying the most affordable solutions.
 - Protecting the standard of tenant's homes and maintaining the Decent Homes position.
 - Continuing to deliver the building safety compliance recovery plan.
 - Setting a target and costed plan for achieving carbon neutrality in the stock and improving the energy efficiency of Council homes.
 - Developing a plan to tackle wider HRA asset liabilities and responsibilities particularly communal spaces and the environment around homes.
 - Developing an approach to thriving neighbourhoods, including any housing led regeneration and the building of new affordable homes, partially funded by the HRA where possible.
 - Delivering a fundable Capital Investment Plan both over the short and longer term.
 11. There is a need to engage members, tenants and leaseholders in developing the strategy. The aspirations of stakeholders and customers need to be considered. Listening to, engaging with and consulting current and future residents will be an essential part of the work over the coming months. The aim is to facilitate several activities to capture feedback, provide challenge to

emerging proposals and raise awareness of funding parameters and limitations. These consultation activities will include:

- Member workshops.
- Involvement of the Communities & Place OSC.
- Tenant and leaseholder workshops.
- Involvement of the Customer Scrutiny Panel and relevant Service Improvement Panels.
- Presentations to the Health & Wellbeing Board and Community Safety Partnership.

12. The consultation will also consider how members, tenants and leaseholders will be involved and engaged in overall investment programme as well as individual project delivery

Proposal

13. The first draft strategy document at Appendix 2 sets out an initial proposal as to what needs to be considered to establish a sustainable and fully funded 30-year HRA Business Plan, as well as what needs to be achieved to meet the Council's Thrive agenda. It confirms the need to develop a forward looking, fully developed asset management strategy that sets out Gateshead's long-term strategic vision and approach to ensure sustainable social housing in the borough. This document will be a starting point for subsequent consultation and discussion with stakeholders.
14. To tackle property viability and sustainability it is proposed to carry out detailed options appraisals on the poorest performing assets, and to identify the most appropriate future options. This would start with appraisals being carried out on Redheugh & Eslington Courts, Warwick Court and any properties with an energy Standard Assessment Procedure (SAP) performance rating lower than band E. Terms of reference will also be developed for commencing an options appraisal on purpose built sheltered housing blocks and medium rise blocks of flats with properties with more than 2 bedrooms.
15. A forward plan for reaching 100% of properties with a new stock condition survey will be implemented at an early opportunity. An increased level of stock condition data will aid in the closing of the gaps that currently exist in the knowledge of the stock.
16. It is proposed to create a new Gateshead Standard to clearly define how the Council's homes will be sustained to the Decent Homes Standard and meet the requirements of a zero-carbon future. The standard will clearly set out the expectation around property and building component condition that will support accurate investment forecasting. This standard will be consulted upon over the coming months.
17. Targets will be set to improve the Net Present Value of the stock ensuring that expected costs are reduced and property performance increased. This will

ensure the HRA has the required income to support its long-term sustainability.

18. A communication and engagement framework will be implemented to enable members, tenants and residents to be involved in developing the strategy for subsequent approval by the Cabinet.
19. A new short and longer term HRA Business Plan will be produced alongside the asset management strategy to confirm a fully fundable short- and longer-term capital investment plan. It is anticipated that both documents will be presented to Cabinet for approval in autumn 2021.

Recommendations

11. It is recommended that Cabinet
 - i) Notes progress in developing a new Housing Revenue Account (HRA) asset management strategy and the timeline for its final drafting and subsequent consideration for approval later in the year.
 - ii) Approves a programme of consultation and awareness raising activities with members, tenants and leaseholders as to the emerging strategy and the resultant potential future investment priorities for the Council's housing stock.
 - iii) Approves the commencement of a detailed appraisal of options for the future investment and management of identified currently uneconomic and low demand homes.

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 its 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.

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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). Sustainability must be driven by a robust asset management strategy that is supported by informed accurate data and property performance information.

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. The realignment of these services will support the wider plans to transform Gateshead and will deliver efficiencies and improvements, while providing services that best meet the need of our tenants and the communities we support.
5. The Council owns and manages almost 19,000 homes valued at £733.4m. The physical and financial performance of these assets underpins the viability of the HRA. The quality of our assets and how they perform also directly impacts on our customers and the communities that they are part of. Good quality and well-maintained homes can significantly impact upon the health, wellbeing and quality of life of our residents.
6. As part of the consolidation of services, it is recognised that the HRA must be moved to a sustainable position where assets generate the income and value needed to fund their management, ongoing maintenance and future investments. To ensure this is achievable it is necessary to have an asset management strategy in place to support a short and longer term viable and fully funded HRA Business Plan.

7. Work is progressing to fully understand the investment that is needed to ensure HRA assets are sustainable for both the short and longer term. An initial asset management strategy has been drafted which confirms an interim 12-month position, and which will provide the basis for wider consultation and engagement of stakeholders, especially members, tenants and leaseholders over the coming months. The initial strategy will also guide and direct the gathering of additional intelligence and understanding of asset performance to enable us to develop our longer-term plans for final consideration and approval by Cabinet later in the year.
8. The current 30-year HRA expenditure profile confirms significant expenditure peaks from 2028/29 onwards. These will need to be addressed to ensure a fundable investment plan. Work has already been carried out to address an identified peak in expenditure forecast for 2024/25, reported to Cabinet previously. Consequently, the HRA reserve level does not now slip below the minimum balance until 2029/30.
9. The asset management strategy must achieve balance and value for money when making investment decisions and cannot invest in poorly performing stock or assets ahead of HRA sustainability or all other stock. There is a need for thorough scrutiny, options appraisal and scenario modelling when making high value high risk investment decisions. We need to identify potentially uneconomical stock and carry out options appraisals to determine whether and how its performance can be improved, and identify a recommended outcome, which could include change of use, reconfiguration, disposal or demolition and redevelopment.

Stock performance

10. There is a need to tackle 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. This is 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. Initially these appraisals will focus on
 - Redheugh & Eslington Court multi storey blocks in the Dunston and Teams ward.
 - Warwick Court multi storey block in the Bridges ward.
 - A small number of properties that have a SAP energy efficiency rating lower than band E

These properties fall into the lowest quartile for asset performance and have been identified as being a priority for appraisal. They will be appraised against several business metrics including demand, projected costs and net present

value. The results of the appraisal will be reported to Cabinet with any recommendations later in the year.

11. Terms of reference will also be developed for extending the options appraisal process further to start looking at the purpose-built sheltered housing blocks and medium rise blocks of flats with properties with more than 2 bedrooms.
12. It is essential that we improve our understanding of the condition, performance, maintenance and investment costs associated with the stock. To close these gaps in our asset knowledge and intelligence we must increase the percentage of the stock that has a new and accurate stock condition survey. Currently around 30% of the stock is surveyed. The accuracy of the HRA financial forecasts is increased greatly the higher the percentage of the stock that is surveyed. We aim to have completed 100% stock condition survey by early 2023. We are working to close the gaps in the data, and for the life of this strategy we will make the best use of the data we have.
13. Increased stock condition data and efficiencies from the transformation of services will contribute positively to improving the HRA sustainability and help to identify a viable HRA Business Plan able to fully fund the asset management strategy and associated investment plan.
14. Void loss and tenancy turnover remain a challenge along with 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. Support will be built in to the HRA Capital Investment programme, supported by stock condition intelligence, to assist the overall reduction in voids, and to enable properties to be re-let more quickly.

Additional pressures

15. 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 building compliance.
16. Currently 95% of Council homes in Gateshead meet the Decent Homes Standard. Significant work has also been undertaken and identified to maintain the safety and security of high-rise blocks. To maintain these standards, we must develop a 'Gateshead Standard' that will define how homes across the borough will be maintained to meet the national regulatory standards. The standard must be affordable and support the needs of the HRA to smooth out investment peaks to assure financial sustainability.
17. Gateshead's new standard must also include how carbon reduction targets will be achieved. In addition to the climate emergency that Gateshead has declared the Government has also announced its intentions to reduce carbon emissions in domestic homes. The Social Housing Regulator has also made

clear an expectation that social landlords must be able to demonstrate a sound understanding of the requirements needed to reach net zero carbon emissions. It is anticipated that it will cost the HRA between £17-£20,000 per property to achieve zero carbon status. In some instances that figure could be as high as £37,000 for some non-traditional and multi storey stock.

18. While energy improvements are currently included in the HRA Business Plan and financial forecasts, the cost to reach net zero is not covered and is currently unaffordable. In developing the final draft asset management strategy work will be undertaken to identify detailed costings for the stock and the options available to achieve net zero carbon for all Council homes. We will also work with partners and the wider social housing sector to lobby Government to make timely and clear announcements on what support will be made available to support the HRA meet zero carbon targets.
19. The strategy will also identify the condition, costs and future responsibilities across the wider HRA asset base. The costs associated with the short- and longer-term maintenance of assets such as the environment and land that falls into the HRA, the street scene, garages open space and communal areas will be included in the associated investment plan. The strategy will also contain measures that will support neighbourhoods to thrive, identify opportunities to reduce the HRA's liabilities and maintain or increase social housing stock in Gateshead.
20. It is essential that the strategy 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.
21. The strategy must ensure that the Council satisfies key legal, statutory and regulatory obligations and requirements. Four key strategic objectives have been initially identified for subsequent discussion during planned consultation programme:
 - Creating thriving, high-quality and financially and environmentally sustainable homes and places;
 - Ensuring safe homes, buildings and places;
 - Establishing strong financial viability, sustainability and deliverability
 - Maximising community wealth building & employment impact.
22. Though work will commence across all these objectives, it will not be possible to fully deliver on these within the next 12 months. Key activities over the next 12 months will focus on the continued gathering of asset management data and intelligence, the consultation necessary to enable production of a final draft strategy and associated investment plan, and the production of the overarching HRA Business Plan confirming the short and longer term funding of the final proposed asset management strategy.
23. The next 12 months will see therefore:

- An improving understanding of HRA asset condition, performance and maintenance and investment costs by closing the gaps in our asset knowledge and intelligence.
 - Identification of asset efficiencies, as well as the work necessary to ensure the HRA does not fall into deficit at any time over the longer term 30-year period.
 - Investment in the existing stock to maintain Decent Homes.
 - Continuing delivery of the building safety compliance recovery plan;
 - Development of plans to tackle property viability and sustainability;
 - Development of a more comprehensive approach to Thriving Neighbourhoods Planning, and to construct a framework for ensuring that HRA assets are integrated with wider housing and residential growth priorities.
 - Setting a target for a percentage improvement in the Net Present Value of the HRA housing stock.
24. During this time, more clarity on the performance of our properties and the likely implications arising from the Building Safety Bill, the Social Housing White Paper and the governments intentions around a low carbon future will emerge and be factored into the new strategy.
25. Over the coming months a programme of consultation and engagement activities will be undertaken to include members, tenants and leaseholders in the development and production of the final draft strategy. The aspirations of stakeholders and customers' needs will be a key part of the strategy and how it is implemented. Listening to, engaging with and consulting current and future residents will help us improve our knowledge of the stock and better understand what members, tenants and residents believe makes a modern home.

Consultation

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

Alternative Options

27. Alternative investment options for the future management and maintenance of Council homes were considered by Cabinet in March 2020. The recommended option of re-integrating management and maintenance back into the Council was subsequently consulted upon, leading to a decision to implement the recommended option from April 2021.

Implications of Recommended Option

28. Resources

- a. **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the HRA 30-year Business plan currently anticipates the HRA reserve level will fall below the minimum £3m reserves level in 2029/30 if no action is taken.
- 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.

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 reviewed to enable this to be monitored and to ensure that decisions are made, where appropriate, to ensure the housing stock is sustainably maintained in the future. Failure to sustainably and responsibly maintain the stock could lead to an increase in litigation claims linked to disrepair.

30. **Equality and Diversity Implications** – An integrated impact assessment will be completed as part of the production of a final strategy for subsequent consideration and approval by Cabinet.

31. **Crime and Disorder Implications** – Effective property management, condition and repair contribute positively towards community safety.

32. **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.

33. **Sustainability and Climate Emergency Implications** – The report contains several measures that will help deliver a more Sustainable Gateshead and support the 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

The Housing Revenue Account Self Financing Determinations February 2012.
Welfare Reform Act 2016.

Local Government and Housing Act 1989.

White Paper: Charter for Social Housing Residents 2020.

Building Safety Bill 2020.

