

TITLE OF REPORT: **Housing Revenue Account (HRA) 30 Year Business Plan**

REPORT OF: **Darren Collins, Strategic Director, Resources and Digital
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Purpose of the Report

1. Cabinet is asked to recommend to Council the proposed Housing Revenue Account (HRA) 30-year Business Plan 2022-2052.

Background

2. The HRA Business Plan is a key strategic document which sets out the Council's income and expenditure plans for delivering Council Housing Services in Gateshead.
3. In October 2021 Council agreed a fully costed viable 30-year HRA business plan. Immediately following this approval, the Office for Budget Responsibility (OBR) updated the inflation forecasts, which impacted the business plan.
4. On 22 February 2022 Council agreed the Housing Revenue Account (HRA) budget 2022/23, which included a recasting of the 30-year Business Plan to incorporate the updated forecasts.
5. The HRA Business Plan assumed rent increases of CPI +1% for 2023/24, which at the time using inflation forecasts, equated to 5% and required savings over the medium term of £3.6 million and additional borrowing to be undertaken in year 17 of the plan, with total borrowing increasing by £161.690 million to £507.195 million.
6. On 17 November 2022 in the Autumn Statement the Chancellor confirmed an upper limit on rent increases of 7%. Given the rent policy is CPI +1% (September CPI was 10.1%), which would result in rent increases of 11.1% and therefore the capping at 7% is in real terms a rent cut given the significant cost pressures. The exact detail of the rent cap application and the annual confirmation of the limit on rent increases has not yet been issued.
7. On the 22 November 2022 Council agreed the Revenue Budget - Second Quarter Review which reported a £3 million projected overspend on the HRA. Whilst it is the intention to bring this in on budget, the overspend is reflected in the business plan. As part of this report Council agreed to increase the HRA budget for 2022/23 by £3 million to accommodate the back log in repairs and maintenance, which is in addition to the identified overspend.
8. Given the HRA business plan is a 30-year plan the longer-term assumptions become more subjective and are likely to change and therefore it is of utmost

importance that the medium term planning horizon is robust. It has, however, never been more challenging given the current financial climate. There is spiralling inflation amidst uncertainty around international issues, the national economy and cost of living crisis, notably around food, fuel and utility prices across the country.

9. Inflationary pressures identified in 2022/23 will have a cumulative effect across the medium term and beyond. It is anticipated that levels of inflation will not reduce significantly by the end of 2022/23 and therefore likely to be ongoing pressures during 2023/24.

Proposal

10. The plan relies on a number of assumptions, and as this is a 30-year plan, assumptions become more uncertain with each year of the plan. The primary risks are in relation to future inflation and interest rates, however, the most up to date forecast information has been used in the preparation of the plan. These assumptions will be kept under review and revised annually as a minimum.
11. Overall, the revised HRA Business Plan (appendix 2) assuming a 7% rent increase for 2023/24 reverting to rent policy of CPI+1 for 2024/25 is a fully costed, sustainable plan and does not breach the minimum £3 million reserve balance during the life of the plan (30 years).
12. The plan is not setting the actual rent and service charges nor is it setting the budget. Those matters will be subject to a further report to Cabinet in February. The plan is, however, setting out the financial trajectory for the HRA based on specific assumptions which are clearly outlined. Any deviation from these assumptions will have impact on the plan and a significant impact on stock investment plans, council new build and the provision of housing services.
13. As an indication a 1% reduction in rent equates to a reduction in income of £3.95 million over the medium term and £27.9 million over the 30-year plan with additional borrowing of £51 million by year 30.
14. In order to incorporate all the cost pressures and anticipated capital investment, including new social housing stock, over the longer term, borrowing will need rise significantly above the current levels and medium term efficiency savings will be required.
15. The plan now requires as a minimum, efficiency savings over the medium term of £3.794 million with a requirement for this to be front loaded with £1.468 million required in 2023/24. It is important that the savings are underpinned by a robust efficiencies plan, which will be developed during the budget setting process.
16. Whilst the borrowing is affordable within this plan, debt needs to be managed in the overall context of affordability for the Council. The risks associated with borrowing will therefore need to be kept under review.
17. However, to accommodate the below inflation rise in rents, borrowing would increase to £601.424 million by year 30 which is £94.229 million more than estimated in February 2022. Additional borrowing will start to accrue in year 9 of the plan rather than year 17.

18. The alternative to the additional borrowing would be to make a further £1.3 million of HRA savings over the medium term in addition to that outlined in paragraph 15. Given the additional borrowing goes beyond the medium term it is recommended that this is kept under review.
19. This plan incorporates the capital investment requirements of the current dwelling and non-dwelling stock. This programme is fully fundable subject to achieving the required level of efficiencies, rent increase assumption for 2023/24, and achievement of key performance assumptions such as future void loss. This should be read in conjunction with the HRA Asset Management Strategy.
20. There is provision to complete the demolition of Sir Godfrey Thompson Court, Crowhall Towers, Redheugh and Eslington Courts.
21. The plan will also support the Housing Development Strategy enabling the development of a further 40 units of social housing per annum over a 10-year period funded from the HRA in addition to the 44 units being developed at Whitley Court.

Recommendations

22. Cabinet is asked to recommend to Council the approval of the Housing Revenue Account (HRA) 30 Year Business Plan 2022-2052 as set out in Appendix 2.

For the following reasons:

- (i) To ensure the medium to long term sustainability of the Housing Revenue Account.
- (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. 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. These are in relation to the anticipated stock changes arising from right to buy sales, acquisitions and known 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.
5. In October 2021 Council agreed a fully costed viable 30-year HRA business plan. Immediately following this approval, the Office for Budget Responsibility (OBR) updated the inflation forecasts, which impacted the business plan.
6. On 22 February 2022 Council agreed the Housing Revenue Account (HRA) budget 2022/23, which included a recasting of the 30-year Business Plan to incorporate the updated forecasts.
7. 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.
 - Increased Right to Buy sales resulting from the increased discounts
 - The impact of Brexit / Covid on inflation in general and particularly in the cost of construction / repairs in terms of materials and labour.

- Ukraine situation and global gas/electricity prices.
- Changes to regulatory standards.
- Repairs backlogs arising from the impact of Covid for which additional investment of £3 million has been required in 2022/23.

8. This is alongside the 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.

9. Between 31 August 2022 and 7 October 2022, the Department for Levelling up, Housing and Communities (DLUHC) consulted on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. It focuses on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year.

10. On 17 November 2022 in the Autumn Statement the Chancellor confirmed the upper limit on rent increases of 7%. The exact detail of this and the annual confirmation of the limit on rent increases has not yet been issued.

Refreshed Plan

11. Overall, the revised HRA Business Plan (appendix 2) is fully costed and does not breach the minimum £3 million balance during the life of the plan (30 years). However, to incorporate all the cost pressures and anticipated capital investment, including new social housing stock, borrowing over the long term will need to rise significantly above the current levels and as a minimum efficiency savings over the medium term of £3.794 million with a requirement for this to be front loaded with £1.468 million required in 2023/24.

12. Whilst the borrowing is affordable within this plan, debt needs to be managed in the overall context of affordability for the Council. The risks associated with borrowing will therefore need to be kept under review.

13. However, to accommodate the below inflation rise in rents borrowing would increase to £601.424 million by year 30, which is £255.919 million higher than the current debt and £94.229 million more than the increase estimated in February 2022. Additional borrowing will start to accrue in year 9 of the plan rather than year 17.

14. The alternative to the additional borrowing would be to make a further £1.3 million of HRA savings over the medium term in addition to the minimum efficiency savings. Given the additional borrowing goes beyond the medium term it is recommended that this is kept under review, especially in the context of the volatile financial environment in which the plan has been developed.

Capital Investment

15. The capital investment included in the plan is based on the stock condition surveys of the current stock and also includes the following:
 - Progress towards net zero carbon
 - Ensuring compliance with building safety measures
 - Investment in garage sites
 - Investment in IT Infrastructure
 - Investment in the commercial stock
 - Investment in communal areas and the wider environment
 - Continued investment in disabled adaptations
 - Support to increase the opportunities for Fostering within the social housing portfolio
16. A summary of the planned 5-year (2023-28) capital programme is included in the plan. This programme is fully fundable subject to achieving the required level of efficiencies, rent increase assumption for 2023/24, and achievement of key performance assumptions such as future void loss.
17. There is provision for the delivery of stock options reviews in relation to both high rise blocks and older persons accommodation and to complete the demolition of Sir Godfrey Thompson Court, Crowhall Towers, Redheugh and Eslington Courts.
18. The plan also provides for the development of new social housing units of 40 per annum for 10 years from 2022/23 and it has been assumed that there will be an opportunity to bid for Homes England grant funding to support the delivery of these units.
19. There is also provision for the 44 units at Whitley Court that are incrementally being let during 2022/23.

Consultation

20. Consultation has taken place with the Leader and Deputy Leader, Cabinet Member for Housing and the Strategic Housing Board.

Alternative Options

21. There are no alternative options proposed.

Implications of Recommended Option

22. Resources

- a. **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the financial implications are reflected in the HRA Business Plan document at appendix 2.

The proposed HRA 30 Year Business Plan enables the investment priorities for the HRA to be delivered whilst ensuring the overall HRA reserve balance remains above £3 million.

The plan includes medium term efficiencies of £3.794 million which are required to ensure the HRA plan is fully costed and sustainable over the longer term.

- b. **Human Resources Implications** – Any direct implications will form part of the budget planning framework and identification of budget proposals.
 - 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.
23. **Risk Management Implications** – In the development of the HRA Business Plan a risk assessment of the assumptions has been carried out. As this is a 30 year plan it is sensitive to changes in the assumptions and therefore it is important that the plan is kept under review being refreshed at least annually and that savings required are underpinned by a robust savings delivery plan which will be developed during the budget setting process.
23. **Equality and Diversity Implications** – An equality impact framework has been developed to assess efficiency proposals.
24. **Crime and Disorder Implications** – No direct crime and disorder implications.
25. **Health Implications** – No direct health implications. Delivery of the investment priorities supported by this plan are likely to have positive health outcomes.
26. **Sustainability and Climate Emergency Implications** – The report contains a number of measures, which will help deliver a more Sustainable Gateshead and support the delivery of the HRA Asset Strategy which includes net zero carbon measures for the Council's housing stock.
27. **Human Rights Implications** – No direct human rights implications.
28. **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
Autumn Statement 2022