

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

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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 2024-2054.

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. On 20 July 2023 Council agreed a fully costed viable 30 year HRA business plan and did not breach the minimum £3 million balance during the life of the plan (30 years). This incorporated assumption regarding increases and the Office for Budget Responsibility (OBR) inflation forecasts.
4. On 22 February 2024 Council agreed the Housing Revenue Account (HRA) budget for 2024/25 which outlined draft budget estimates for the next 4 years and a business plan which continued to be viable over 30 years.
5. On 3 April 2024 the then Government announced that to provide greater certainty for social housing tenants and landlords the existing social housing rent settlement of Consumer Price Index (CPI) plus one percentage point would be rolled over into 2025/26.
6. On 25 June 2024 Cabinet received the Provisional Revenue Outturn 2023/24 report which included the HRA position. This outlined an increase in the projected overspend from £5.1 million to £7.4 million requiring the use of HRA reserves which has been incorporated into the refreshed business plan.
7. On 16 July 2024 Cabinet received the Revenue Budget First Quarter Review 2024/25 which outlined a projected overspend of £0.9 million on the HRA. In refreshing the business plan, it is assumed that management interventions during 2024/25 will enable the HRA to be delivered on budget.
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 continues to be challenging given the current uncertain financial environment.

Proposal

9. Overall, the revised HRA Business Plan (appendix 2) is a fully costed, sustainable plan and does not breach the minimum £3 million reserve balance during the life of the plan (30 years).
10. The plan is setting out the financial trajectory for the HRA based on specific assumptions which are clearly outlined. Any variation to these assumptions will have an impact on the plan and therefore an impact on stock investment plans, council new build and the provision of housing services.
11. As an indication a 1% reduction in rent in 2025/26 equates to a reduction in income of £3.7 million over the medium term and £32.6 million over the 30-year plan and the plan would not be financially viable beyond year 28.
12. 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.
13. The plan now requires as a minimum efficiency savings over the medium term of £3.823 million with a requirement for this to be front loaded with £1.604 million required in 2025/26. It is important that the savings are underpinned by a robust efficiencies plan which will be developed during the budget setting process.
14. However, to accommodate the stock investments and associated cost implications based on current assumptions borrowing would increase to £1.006 billion by year 30 which is £250.547 million more than estimated in February 2024. Additional borrowing will start to accrue in year 2 of the plan rather than year 3.
15. Whilst the borrowing is affordable within this plan, debt needs to be managed in the overall context of affordability for the Council. The report is not recommending that we take this level of borrowing but rather this is the level that would be required in future without any other changes. The timing of any borrowing will depend upon cash flow requirements to support the HRA Capital Programme. Interest rates are monitored closely to inform the best timing to take new borrowing to minimise the revenue impact of financing the HRA Capital Programme. The risks associated with borrowing and key affordability indicators will continue to be kept under review.
16. The alternative to the additional borrowing would be to make a further £3.5 million of HRA savings over the medium term in addition to that outlined in paragraph 13 or reduce capital investment. Given the additional borrowing accrues in year 2 of the plan 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 and a level of uncertainty around future rent policy and the impacts of the new regulatory framework.
17. 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 2024/25, and achievement of key performance assumptions such as future void loss. This should be read in conjunction with the HRA Asset Management Strategy.

18. There is provision to complete the demolition of Sir Godfrey Thompson Court, Crowhall Towers, Redheugh and Eslington Courts.
19. In July 2024 Cabinet agreed to decommission the East Street Flat blocks Park, Peareth and Priory Courts and look to provide 100 new HRA homes in or around the town centre area, with the residents of these blocks having priority for the new units. The HRA business plan includes the financial implications of this decision.
20. The plan will also support the Housing Development Strategy enabling the continued development of social housing stock to reach a planned 400 units funded from the HRA.

Recommendations

21. Cabinet is asked to recommend to Council:
 - (i) The approval of the Housing Revenue Account (HRA) 30 Year Business Plan 2024-2054 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 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. On 20 July 2023 Council agreed a fully costed viable 30 year HRA business plan and did not breach the minimum £3 million balance during the life of the plan (30 years). This incorporated assumption regarding increases and the Office for Budget Responsibility (OBR) inflation forecasts.
6. On 22 February 2024 Council agreed the Housing Revenue Account (HRA) budget for 2024/25 which outlined draft budget estimates for the next 4 years and a business plan which continued to be viable over 30 years.
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 was required in 2022/23.
- A below inflation cap on rent increases of 7% in 2023/24.

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. On 30 July 2024 the Deputy Prime Minister wrote to Local Authorities setting out the principal elements of the Government plan to build new homes and maintain existing social housing stock. This includes:

- providing rent stability to councils and housing associations
- a review of the Right to Buy scheme and some immediate actions around more flexibility in the use of receipts together with the
- intention to bring forward secondary legislation to implement Awaab's Law
- bring forward more detail in relation to plans to raise standards and strengthen residents voices.

10. Further clarity is expected in the Government's Autumn Budget Statement on 30 October 2024.

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 £3.823 million with a requirement for this to be front loaded with £1.604 million required in 2025/26.

12. However, to accommodate the stock investments and associated cost implications based on the current assumptions borrowing would increase to £1.006 billion by year 30 which is £660.037 million higher than the current underlying loan debt and £250.547 million more than that estimated in February 2024. Additional borrowing will start to accrue in year 2 of the plan rather than year 3 as it would be now.

13. Whilst the borrowing is affordable within this plan, debt needs to be managed in the overall context of affordability for the Council. The timing of any borrowing will depend upon cash flow requirements to support the HRA Capital Programme. Interest rates are monitored closely to inform the best timing to take new borrowing to minimise the

revenue impact of financing the HRA Capital Programme. The risks associated with borrowing and key affordability indicators will continue to be kept under review.

14. The alternative to the additional borrowing would be to make a further £3.5 million of HRA savings over the medium term in addition to the minimum efficiency savings or reduce capital investment. Given the additional borrowing accrues in year 2 of the plan 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 and a level of uncertainty around future rent policy and the impacts of the new regulatory framework.

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 and the HRA public realm
 - 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 (2024-29) capital programme is included in the plan. This programme is fully fundable subject to achieving the required level of efficiencies, rent increase assumptions, 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. During the development of planned investment work for the East Street Flats Park, Peareth and Priory Courts it was identified that scheme costs were projected at a higher level than originally forecast. To ensure that sound and informed HRA investment decisions were being made an options appraisal of the blocks was undertaken. The appraisal looked at the short- and long-term investment needs of the blocks, alongside other business indicators including running cost, income forecasts and property demand. The options appraisal identified that the blocks were not sustainable over the 30 years of the HRA business plan. In July 2024 Cabinet approved a decision to decommission the blocks and look to provide 100 new HRA homes in or around the town centre area, with the residents of these blocks having priority for the new units. The HRA Business Plan includes the financial implications of this decision.
19. The continued development of new social housing units to reach 400 by 2033 as from 2022/23 is included and it has been assumed that the Treasury share of Right to Buy receipts and any subsequent 1-4-1 receipts which are forecast to accrue will be used to fund the units first and then there will be an opportunity to bid for Homes England grant funding to support the delivery of the remaining units not funded from the receipts.

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 £3.823 million which are required to ensure the HRA plan is fully costed and sustainable over the longer term.

The implications and risks associated with borrowing will continue to be kept under review.

- 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.

24. **Equality and Diversity Implications** – An equality impact framework has been developed to assess efficiency proposals.

25. **Crime and Disorder Implications** – No direct crime and disorder implications.

26. **Health Implications** – No direct health implications. Delivery of the investment priorities supported by this plan are likely to have positive health outcomes.

27. **Sustainability and Climate Emergency Implications** – The report contains 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.

28. **Human Rights Implications** – No direct human rights implications.

29. **Area and Ward Implications** – All wards will be affected by the proposals in this report.

Background Information

Direction on the Rent Standard 2019

Direction on the Rent Standard 2023

The Housing Revenue Account Self Financing Determinations February 2012

Local Government and Housing Act 1989

Localism Act 2011

Autumn Statement 2022

Social Housing Regulation Act 2023