

HOUSING REVENUE ACCOUNT (HRA) RECOVERY PLAN

Executive Summary

The Housing Revenue Account (HRA) is a ringfenced account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities. On 23 February 2023, the Council set its HRA budget for 2023-24, requiring a drawdown of reserves to set a balanced budget. The report forecast an estimated deficit of £1,365,498 in 2023-24.

Forecasts have been updated for 2023-24 and estimated for the coming 5 years. These show that the HRA will continue to be in deficit up to and including 2026-27 financial year. With minimal reserves remaining, the Council will not be able to set a balanced budget for 2023-24 without urgent action to manage in-year pressures and to bring the HRA back into balance.

This report sets out the main areas of search for savings identified to date, which are:

- Ensuring rent collection and void turnaround times are optimised.
- Commissioning a review of internal recharges to the HRA.
- Ensuring the review of the Sheerwater regeneration supports a sustainable HRA position as a priority objective.
- Some service reductions.

The report also considers the minimum viable level of investment that is required to deliver the Council's Housing Annual Maintenance Plan (AMP). Despite the AMP having been reduced to essential works only (for example, prioritising fire safety remedial works), the AMP has a forecast capital funding deficit of £1,374,000 this year. The risks of not completing these essential works are considerable in terms of meeting the Council's regulatory responsibilities and maintaining homes to a safe standard. It is therefore proposed that an increased budget be agreed and that Officers pursue various options to meet this shortfall. Given the urgency of these works, this report seeks delegated authority for the Strategic Director – Communities, in consultation with the Portfolio Holder responsible for Housing, to authorise the disposal of some poorly performing housing assets, where it is deemed necessary to fulfil the Council's statutory obligations. Despite this, it will be necessary for the Council to self-refer to the Regulator for Social Housing as it will not be able to maintain its properties to the Decent Homes standard.

In the event that the HRA does not balance, the S151 Officer would be required to issue a further S114 notice.

Recommendations

The Executive is requested to:

RECOMMEND to Council That

- (i) the update on the Housing Revenue Account budgets be noted;**
- (ii) the Housing Annual Maintenance Plan (AMP) budget for 2023-24, included in the Housing Investment Programme, be increased to £5,330,000 to allow essential and statutory**

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remedial works to be completed, as set out in Appendix 1 to the report;

- (iii) the Strategic Director – Communities, in consultation with the Portfolio Holder for Housing, be authorised to agree the disposal of vacant housing assets as required; and
- (iv) any capital receipts from disposals of vacant housing assets be held in the Major Repairs Reserve for investment in the maintenance of the Council's homes.

Reasons for Decision

Reason: To ensure the Council is able set a sustainable Housing Revenue Account (HRA) budget and deliver on its statutory and regulatory housing duties.

The item(s) above will need to be dealt with by way of a recommendation to Council.

Background Papers:	None.
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1.0 Introduction

- 1.1 The Housing Revenue Account (HRA) is a ringfenced account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities (under the powers and duties conferred on them in Part II of the Housing Act 1985 and certain provisions of earlier legislation). Any local housing authority that owns 200 or more social dwellings are required to account for them within their HRA.
- 1.2 On 10 November 2020, Government published updated guidance on the operation of the Housing Revenue Account ring-fence. This guidance updates and replaces Circular 8/95 published by the former Department of the Environment (DoE). It gives advice to local housing authorities in England on certain aspects of the HRA. This guidance restates ministers' established policy for the HRA, including highlighting the need to be fair to both tenants and council taxpayers in its apportionment of costs between the HRA and General Fund.
- 1.3 On 23 February 2023, the Council set its HRA budget for 2023-24, requiring a drawdown of reserves to set a balanced budget. The report forecast an estimated deficit of £1,365,498 in 2023-24 with a £1,366,898 contribution from reserves being required to maintain a working balance per property of £100. Reserves were anticipated to have depleted to £221,477 by 31 March 2024, which is not sustainable on an ongoing basis.
- 1.4 The HRA has been adversely impacted by a combination of factors. Like all housing authorities, Woking has suffered due to 4 years of nationally imposed rents cuts between 2016 and 2020 and the rent cap applied for this financial year (which has not covered contractual inflation). However, the local situation has been worsened by new build housing projects in the HRA (which at social rent levels do not cover their costs) and the Council's exposure to energy inflation, which has not been fully recoverable from tenants through service charges. Most significantly, the Sheerwater Regeneration project has resulted in lost rental income to the HRA from the homes within the regeneration red line. Many properties within the Regeneration Red Line are now being held as vacant, pending redevelopment, or have been demolished. The HRA is foregoing the rental income from these homes whilst still incurring costs.
- 1.5 This report provides an update on the HRA budget, including forecasts for the coming 5 years, along with actions that are being pursued to deliver a sustainable long-term HRA.

2.0 HRA Budget Update

- 2.1 Since the 2023-24 budget was approved, work has commenced on forecasting the HRA operating position for the coming 5 years. The forecast assumes rents are increased by CPI + 1% in line with Government rent guidance. It is assumed that CPI will reduce to 4% in September 2023 (to be applied for 2024-25 rent setting) and will be 2 - 2.5% for the following years. The current projection for 2023-24 and the following 5 years is summarised in the table below:

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Expenditure	(17,204,089)	(17,532,590)	(17,799,112)	(18,070,966)	(18,348,256)	(18,701,801)
Total Income	20,984,874	21,907,963	22,594,327	23,272,122	23,970,251	24,809,170
Interest	(5,540,927)	(5,559,677)	(5,575,927)	(5,590,927)	(5,590,927)	(5,590,927)
Surplus (Deficit)	(1,760,142)	(1,184,304)	(780,712)	(389,770)	31,068	516,442

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- 2.2 As shown in the table above, the deficit for 2023-24 has worsened from the £1,365,498 deficit identified in February 2023 due to further cost pressures having been identified. These primarily arise from additional security requirements in Sheerwater and commercial pressures on the repairs contract. The Housing team are seeking as far as possible to manage these cost pressures within existing agreed budgets by reducing spend in discretionary areas of the service.
- 2.3 When the HRA budget was set in February 2023, it was assumed that the HRA would be compensated for £3.8 million of revenue costs it incurred in underwriting New Vision Homes' costs of developing the first proposed regeneration scheme for Sheerwater. This payment was expected to be incorporated into the 2024 ThamesWey Business Plans, which will be presented to Council for approval later in 2023-24. Given the long-term decisions that need to be made on the regeneration of Sheerwater, this receipt is not guaranteed and is not currently incorporated into the HRA recovery plan.
- 2.4 The forecast shows that the HRA will continue to be in deficit up to and including 2026-27 financial year. With minimal reserves remaining, the Council will not be able to set a balanced budget for 2023-24 without urgent action to manage in-year pressures and to bring the HRA back into balance.

3.0 Areas of Search

- 3.1 A workshop has been held involving Housing and Finance Officers to identify some actions and areas of search to feed into this high-level recovery plan. An experienced HRA Accountant has also been appointed and is due to start on 10 July 2023. This role will focus on interrogating the current HRA Operating Account to ensure it is sound and then developing a robust 30-year HRA Business Plan.
- 3.2 The main areas of search for savings identified to date are:
- Ensuring rent collection and void turnaround times are optimised.
 - Commissioning a review of internal recharges to the HRA, which will be an urgent priority for the new HRA Accountant.
 - Ensuring the review of the Sheerwater Regeneration (being undertaken as part of the Commercial Strategy) supports a sustainable HRA position as a priority objective, including considering ways to retain revenue within the HRA.
 - Some service reductions.

- 3.3 These are considered in more detail below.

Rent Collection and Voids

- 3.4 In early 2023, an external review was commissioned of the income service by an experienced consultancy in this field. The review highlighted a number of issues and 80 recommendations to improve the management of the Council's rental income service. These included appointing an experienced interim to lead on the improvements, production of new policies and procedures for service, improved data and automation of processes and a review of all accounts with arrears over £1,000.
- 3.5 The service is on an improvement journey and the next step is an "invest to save" initiative to bring in bespoke analytical software that can improve efficiency of the team and allow the officers to target rent accounts more efficiently.
- 3.6 Reducing the time it takes to relet homes is a vital improvement area for the housing service. At a time of increased homelessness both locally and nationally, an empty home means a household spends additional time in expensive and unsettled temporary accommodation, possibly outside of the Borough. The Council also loses rental income on the HRA stock.

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- 3.7 Current performance is poor due to various factors, including contractor performance and capacity, refusals by applicants, weak processes and staff vacancies.
- 3.8 There is a significant focus on improving performance with weekly voids meetings and senior officer oversight now in place. An additional voids surveyor has been appointed for 6 months to ensure that specifications are prepared and issued to contractors quickly. The team have also expanded the pool of contractors it uses for void works to increase capacity.
- 3.9 It is anticipated that by having extra contractor capacity to meet targets dates, implementing the Council's Housing Allocations Policy more rigorously around refusals and improving performance monitoring, relet times for all general voids should be within 28 days by the end of 2023-24.

Internal Recharges

- 3.10 When taking any decision on whether expenditure or income should be accounted for in the HRA, the guiding principle that should be applied is "Who benefits?" In some cases, such as rental income or expenditure on housing repairs, it is clear that the HRA is the correct accounting vehicle. However, there are 'grey areas' of income and expenditure where local flexibility is best employed using the "who benefits?" approach, including the fair apportionment of management and staff overheads.
- 3.11 The HRA contributes to the general fund towards the cost of wider support services, such as, Finance, Human Resources, Civic Offices, corporate leadership and ICT. However, over the last 12 months, work has commenced to look into the fairness and proportionality of costs currently recharged to the HRA.
- 3.12 A full review of the internal recharges allocated to the HRA is due to complete over the next 3-4 months. There may need to be an adjustment for any current or legacy overcharging by the general fund to the HRA identified during the course of the review. This will exert further budget pressures on the general fund.
- 3.13 Following the review of internal recharges, it is likely to take a further 3-6 months to develop the 30 year Business Plan for the HRA.

Sheerwater

- 3.14 The approved Sheerwater Regeneration scheme assumes that 426 HRA homes in Sheerwater are demolished and redeveloped outside of the HRA. Of these, 89 homes have been demolished and 241 homes are empty, pending demolition. For budget setting purposes, it was assumed that the number of tenanted properties would halve during 2023-24 and there would be no rental income from 2024-2025 onwards. Whilst the HRA has lost the rental income from these homes, it is still incurring costs to maintain and secure them.
- 3.15 The Council has agreed to pause future phases of the Sheerwater Regeneration at the tender stage to allow these phases to be part of the wider review of the delivery of Sheerwater. A review has been commissioned as part of a wider Commercial Strategy with one of the objectives being that the future delivery needs to support a sustainable HRA.

Service Reductions

- 3.16 As described above, the service is facing cost pressures in relation to its repairs contract, which Officers are seeking to manage within agreed budgets. However, in order to achieve this, there will need to be some reductions in the service standards and offer in the short-term as follows:

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- Reduced Void Standard to minimum lettable standard.
- Reduced self-authorisation cap on works with the Council's Repairs contractor, Mountjoy, which may impact customer satisfaction due to delays in receiving a service.
- Increased response times on routine repairs (where this generates savings).

3.17 Discretionary areas of the service are unlikely to be authorised (except where they prevent other expenditure) due to the ongoing cost controls.

4.0 Annual Maintenance Plan

4.1 The Housing Annual Maintenance Plan (AMP) focuses on ensuring the Council can deliver the minimum statutory service required to maintain decency in accordance with Regulator of Social Housing "Homes Standard".

4.2 A budget of £3,956,000 was agreed for the Housing AMP in the Housing Investment Programme (HIP) in February 2023, equivalent to the depreciation amount in the HRA budget. This budget is insufficient to cover the investment needs of the housing stock, following a sustained period of under-investment.

4.3 Using data and information from fixed price contracts, existing stock condition data and risk assessments, Officers have developed and costed an annual plan of works. Work is ongoing to forecast the future investment requirements over the next 5 and 30-year time periods.

4.4 In order to achieve the minimum decency level across the Council's stock, it is estimated that the Council would be at least £5.1 million over budget. As a result, the AMP for 2023/24 has been reviewed and reduced with a focus on essential works only, for example, fire safety remedial works. The full draft AMP for 2023-24 is included in Appendix 1. The reduced scope of the AMP includes:

- Decent Homes programme reduced to circa 40 replacement kitchens and bathrooms (already committed).
- All other works relating to Decent Homes will be suspended. The suspension of these works will require the Council to self-refer to the Social Housing Regulator and the Council needing to provide an improvement plan and clear medium term budget provision for addressing the breach in the "Homes Standard".
- A reactive budget of £650,000 be retained for ad hoc replacement boilers, windows, doors and roof replacements to address failures during the year.
- The Disabled Adaptations budget is reduced.
- A reduced programme of commercial heating system replacements.

4.5 Despite these reductions, the AMP has a forecast capital funding deficit of £1,374,000 this year. The risks of not completing these works are considerable in terms of meeting the Council's regulatory responsibilities and maintaining homes to a safe standard. It is not considered feasible or safe to reduce the budget any further.

4.6 The options open to the Council to meet the capital budget shortfall are:

- To seek a capital contribution from Surrey County Council for works to Extra Care Housing schemes.

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- The financing of the Sheerwater Regeneration Project allows for a capital receipt to be made from the Project to the HRA to compensate it for the historic HRA debt relating to the demolished dwellings as land is transferred to Thameswey. A receipt of £5,814,475 (£5,225,725 capital; £588,750 revenue) is expected from Thameswey in 2023-24 for the land and compensation payments required for red, yellow and purple phases. The capital receipt will assist with funding future investment in the Council's HRA stock. The Council could decide to invoice ThamesWey immediately for the land required for red, yellow and purple phases and apply the capital receipt to the AMP. This would require additional borrowing from the PWLB and on-lending to the company.
- To investigate any other reserves or grants that could be applied to these works.
- To consider some strategic vacant property disposals.

4.7 Given the urgency of these works, this report seeks delegated authority for the Strategic Director – Communities, in consultation with the Portfolio Holder responsible for Housing, to authorise the disposal of some poorly performing housing assets, where it is deemed necessary to fulfil the Council's statutory obligations. Any capital receipts would be earmarked to fund essential capital investment in its housing stock. It is important to note that the timing of the disposal and income from capital receipts may arrive too late in the year to fund the necessary works in the 2023-24 financial year.

5.0 Corporate Strategy

5.1 Provision of housing is a key priority within the Council's "Woking for All" strategy. This report sets out the financial challenges currently faced in managing and maintaining the Council's housing stock and the ongoing recovery actions being taken to deliver a sustainable Housing Revenue Account (HRA).

6.0 Implications

Finance and Risk

- 6.1 The financial implications are explicit in the report.
- 6.2 This report highlights the ongoing risk faced within the HRA budget and mitigating actions that are planned. Budget performance will continue to be reported in the Performance and Financial Monitoring document (the "Green Book").
- 6.3 The draft AMP has already deferred significant, large-scale works to achieve the current deficit position meaning a significant amount of Decent Homes works, heating upgrades and other works have been postponed or placed on hold (albeit with risks mitigated).
- 6.4 The current level of non-decent homes, which are still subject to internal validation, represents a significant challenge to the Council both within the current year and into future years. The Council will be required to ensure robust delivery and budgetary plans are in place to improve non decency levels in the future. The suspension of Decent Homes work in itself will require the Council to self-refer to the Social Housing Regulator.
- 6.5 The current AMP now consists predominately of compliance related servicing and remedial works, which are a statutory requirement. These works areas cannot be reduced any further without incurring significant risk to the Council. Failure to meet the identified capital shortfall would prove highly detrimental and increase the risk to the Council as it is likely that the service would be unable to deliver works to ensure warm and weathertight homes.
- 6.6 The HRA faces significant challenges in 2023-24 and Officers have already sought to implement financial controls, which may impact service delivery and customer satisfaction with

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repairs. Any further budget reductions are likely to result in increasing disrepair cases, compensation and legal fees.

- 6.7 In the event that the HRA does not balance, the S151 Officer would be required to issue a further S114 notice.

Equalities and Human Resources

- 6.8 There are no specific equalities implications raised by the proposals in this report. However, ensuring the Council maintains a sustainable HRA and maintains its housing stock to a safe standard is critical for supporting vulnerable residents (including those with protected characteristics).
- 6.9 There are no additional human resources or training and development implications arising as a direct result of this report.

Legal

- 6.10 Local authorities have the freedom to dispose of their land in any manner that they wish subject to certain provisos prescribed within the following major Acts, other Acts and General Consents:
- s123 (Disposal of land by principal councils) of the Local Government Act 1972;
 - s32 of the Housing Act 1985 (as amended); and
 - s25 of the Local Government Act 1988.
- 6.11 Under s123 of the Local Government Act 1972, the Council has wide powers for the disposal of its property assets. The overriding requirement is to obtain the best consideration that can be reasonably obtained for the land.
- 6.12 Under s32 of the Housing Act 1985 (as amended), the local authority has the power to dispose of land and dwellings held for housing purposes. Secretary of State consent will be required unless the disposal is covered by the General Housing Consents 2013.
- 6.13 The proposal to dispose of vacant council homes is permitted under General Consent A, which allows a local authority to dispose of land (including vacant homes) for a consideration equal to its market value without Secretary of State consent.

7.0 Engagement and Consultation

- 7.1 Involved tenants were briefed on the financial challenges faced by the Council, and the HRA in particular, on 3 July 2023.
- 7.2 There will be an opportunity for tenants to contribute their ideas for savings and efficiencies over the course of this financial year.

REPORT ENDS

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Appendix 1

Housing Annual Maintenance Plan (AMP)

Description	Quantity		Rate	Budget
<i>Statutory Services Remedial Works</i>				
Passenger Lift Servicing Remedial Works	18	Item	£ 650.00	£ 11,700.00
Communal Appliance Servicing Remedial Works	1	Item	£ 6,500.00	£ 6,500.00
Stairlift Servicing Remedial Works	104	Item	£ 95.00	£ 9,880.00
Water Hygiene Remedial Works	30	Item	£ 3,000.00	£ 90,000.00
Electrical Testing Remedial Works	841	Item	£ 325.00	£ 273,325.00
Asbestos Remedial Works (including Removal)	1	Item	£ 25,000.00	£ 25,000.00
Emergency Light Testing Remedial Works	181	Item	£ 1,000.00	£ 181,000.00
Fire Panel Servicing Remedial Works	63	Item	£ 250.00	£ 15,750.00
Fire Extinguisher Remedial Works	66	Item	£ 125.00	£ 8,250.00
Lightning Protection Testing Remedial Works	1	Item	£ 1,000.00	£ 1,000.00
Fall Arrest System Servicing Remedial Works	1	Item	£ 1,000.00	£ 1,000.00
<i>Lifecycle Dwelling Investment</i>				
Kitchen Replacement Work Stream	1	Item	£ 301,936.00	£ 301,936.00
Bathroom Replacement Work Stream	24	No	£ 6,091.80	£ 146,203.20
Separate WC Work Stream	7	No	£ 2,248.40	£ 15,738.80
Boiler Replacement Work Stream	35	No	£ 3,700.00	£ 129,500.00
Door Replacement Workstream	50	Item	£ 1,500.00	£ 75,000.00
Window Replacement Workstream	20	Properties	£ 6,000.00	£ 120,000.00
Roof Replacement Workstream	1	Item	£ 325,000.00	£ 325,000.00
<i>Disabled Adaptations/Extensions</i>				
2023-24 Disabled Adaptations	1	Item	£ 197,000.00	£ 197,000.00
<i>Major Projects</i>				

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Description	Quantity		Rate	Budget
Major Works Voids	5	No	£ 50,000.00	£ 250,000.00
Fire Safety and Improvement Works	1	Item	£ 1,000,000.00	£ 1,000,000.00
Brockhill Fire Safety and Improvement Works	1	Item	£ 1,271,626.00	£ 1,271,626.00
Heat Cost Allocator Installations	1	Item	£ 25,000.00	£ 25,000.00
Communal Heating Upgrade Project	1	Item	£ 525,000.00	£ 525,000.00
Brockhill Communal Heating Upgrade	1	Item	£ 84,588.28	£ 84,588.28
Sheerwater Estate and Safety Management	1	Item	£ 150,000.00	£ 150,000.00
<i>Disrepair Claims</i>				
Disrepair Works	10	No	£ 8,500.00	£ 85,000.00
<i>Consultancy</i>				
Specialist Consultancy	1	Item	£ 247,722.00	£ 247,722.00
<i>Contingency</i>				
ICT System Upgrade	1	Item	£ 175,000.00	£ 175,000.00
Capitalised Staff Costs	1	Item	£ 295,001.00	£ 295,001.00
TOTAL				£6,042,720.28
TOTAL (LESS ACCRUALS)				£5,329,523.28