



## Housing and Growth Committee

16 November 2022

<b>Title</b>	<b>Housing Revenue Account (HRA) Business Plan</b>
<b>Report of</b>	Chair of Housing and Growth Committee
<b>Wards</b>	All
<b>Status</b>	Public
<b>Urgent</b>	N/A
<b>Key</b>	Yes
<b>Enclosures</b>	Appendix 1- Housing Revenue Account Business Plan
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### Summary

The Housing Revenue Account (HRA) is a ring-fenced budget that is used to manage income and costs associated with managing the council's Housing Stock and related assets including shops and garages on council housing estates. This report provides an update of the 30-year HRA Business Plan since it was last reported to the Housing and Growth Committee in February 2022.

There have been various impacts on the business plan due to wider economic issues; the 3 key aspects are i) increased interest rates, ii) rent 'cap' consultation and iii) increased utility costs, mainly for communal heating systems

### Officers Recommendations

1. That Housing and Growth Committee approve the updated Housing Revenue Account Business Plan as attached in Appendix 1.

#### 1. Why this report is needed

- 1.1 Expenditure and income relating to property and income listed in section 74 of the Local Government and Housing Act 1989 which includes housing held under Part II of the Housing Act 1985 must be accounted for in the Housing Revenue Account (HRA). The HRA is a ring-fenced budget.
- 1.2 From 2012, a national subsidy system for council housing was replaced with self-financing giving local authorities direct control over the income and expenditure associated with council housing. This settlement saw Barnet move away from having to pay circa. £11m of council rents it collected to the Treasury to a position whereby the HRA is self-sufficient and able to meet the on-going investment needs of council homes.
- 1.3 In addition, the settlement included a debt cap of £240m which provided the council with the opportunity to borrow an additional £38m from headroom generated by differences between the actual HRA debt and the amount assumed in the settlement.
- 1.4 In October 2018, the government removed the debt cap and the HRA is now subject to the prudential borrowing rules, similar to those for the General Fund with the primary difference being the absence of a statutory minimum revenue provision in the HRA.
- 1.5 The removal of the debt cap provides an opportunity to increase the supply of affordable homes and significant investment in the existing stock in the borough, as it means that the council can borrow more within a prudent limit to support the acquisition or building of new homes.
- 1.6 There have been recent changes to how Right to Buy receipts may be used, i.e., more of the receipt can be used for development, the period over which it must be used has been extended from 3 years to 5 years; both these changes come with a clear priority of new development, not acquisition.
- 1.7 The 30-year HRA Business Plan, attached at Appendix A, has been updated to reflect the current year forecast. It continues to reflect the previously approved basis of how the council will manage and maintain the housing stock and priorities for investment going forward, including investment in fire safety improvements, compliance with new legislation for 'Building a Safer Future' and new affordable homes for rent.

## **2. Reasons for recommendations**

- 2.1 The HRA Business Plan provides an important mechanism for ensuring that the council's housing stock is well managed and maintained, and that investment is made to ensure the safety of residents.

The HRA should be self-funding and continuous review of the position of the HRA is required to ensure this. This is particularly relevant in the current market conditions, particularly significantly higher interest rates currently and forecast has materially impacted the long-term position of the HRA. The recent consultation on a rent 'cap' for social housing will also impact the HRA business plan negatively. The Council response to the rent consultation was for a 7% rent 'cap' for 2023/24 and then no further cap. The business plan has been modelled with a 5% 'cap' for 2 years, the first year is as per the indicated preference of the consultation. Anything less than 5% will have a material impact on the business plan and require service provision review and/or review of charges from the General Fund.

### **3. Alternative options considered and not recommended**

- 3.1 The HRA Business Plan has been developed to support the priorities outlined in the council's Housing Strategy and Growth Strategy, and no other options were considered as these would have to mean a reduced level of service or quality of home for residents.

### **4. Post decision implementation**

- 4.1 Proposals for building additional affordable homes for rent funded through the HRA will be developed as part of the council's development programme and be submitted to the Housing & Growth Committee for consideration.

### **5. Implications of decision**

#### **5.1 Corporate Priorities and Performance**

- 5.1.1 A new Corporate Plan is in development, with an approach being built around a council that cares for people, our places, and the planet, as discussed at the Policy and Resources Committee meeting on 29 September 2022. Under the People priority, it aims to be family friendly, tackle inequality, and support health and independence. Under the Place priority, it aims to ensure safe, attractive neighbourhoods, quality homes, sustainable growth, and thriving town centres and make Barnet a fun place to visit. Under the Planet priority, it aims to focus on the council's journey to net zero, local environment, and green spaces

- 5.1.2 In addition, the council agreed a new Housing Strategy in April 2019 which sets out the plans to meet housing need in the borough with a focus on the following priorities:

- Raising standards in the private rented sector
- Delivering more homes that people can afford
- Safe and Secure Homes
- Promoting independence
- Tackling homelessness and rough sleeping in Barnet

- 5.1.3 A new Housing Strategy is currently being prepared and the draft will be submitted to Housing and Growth Committee in January 2023. The HRA Business Plan will continue to contribute to the Housing Strategy in several ways, including:

- Maintaining the quality and safety of the existing supply of council housing
- Investing in the delivery of new affordable homes for rent
- Increasing the supply of housing to help tackle homelessness
- Investing in new homes for vulnerable people, including wheelchair users and older people
- Ensuring that housing services funded through the HRA are efficient and effective

- 5.1.4 Barnet's Joint Strategic Needs Assessment highlights the fact that there is a long-term

shift in housing tenure towards renting and away from owner occupancy (either outright or with a mortgage) reflecting a sustained reduction in housing affordability and an imbalance between housing demand and supply. Over three-quarters of older adults in Barnet are homeowners, indicating that a substantial majority of this age group are living in their own homes in the community, against a background of limiting long term illness and possible social isolation. The HRA Business Plan aims to increase the housing supply including the provision of specialist housing for vulnerable people.

## **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 The HRA Business Plan seeks to provide assurance that there is a viable plan in place for managing and investing the resources available to the council in the form of council rents and income from other HRA assets such as shops and garages.
- 5.2.2 New affordable homes built or acquired through the HRA will help to reduce costs to the council's general fund by providing an alternative to short term temporary accommodation, which falls outside Part II of the 1985 Act, and which has a net cost to the council in excess of £3,400 a year per unit.
- 5.2.3 The delivery of extra care housing and wheelchair adapted homes will help the council to meet savings targets for social care budgets by providing a more affordable alternative to residential care as a well as delivering a better outcome for vulnerable residents.
- 5.2.4 The HRA Business Plan historically had been modelled that rents for existing council homes will increase by Consumer Price Index (CPI) +1% a year until March 2025 in line with current Government Policy and from 2025/26 that they will then increase by CPI only. Given the high rate of CPI (10.1% for September 2022), central Government recently had a consultation regarding a rent 'cap' for 2023/24 and possibly the following year. The results of the consultation are not yet known, but even without central legislation it was considered unlikely that local members would have approved a rent increase of this quantum (11.1%). As such, the business plan has been modelled using a maximum rent increase of 5% each year for the next 2 years (when forecasts are CPI to be close to 10% in both years) and then CPI+1% for 5 years then CPI only. For new council homes, it is assumed that affordable rents of 65% of local market rents or local housing allowance whichever is lower will be charged, in line with the councils rent policy. Whilst it is known that the administration is seeking new properties to be let at social rents, this could not be accommodated within the business plan without lower interest rates or substantial additional grant.
- 5.2.5 The HRA Business plan has been detailed in Appendix 1 to show the 2022/23 forecasted position along with the following five financial years concerning both revenue and capital. The main changes since the February 2022 update relates to updated CPI assumptions, updated interest rate assumptions, new Committee approved development schemes included and amended rent increases as described in 5.2.4. No major policy (only process) changes have been included as they are currently not affordable and there are no material budget changes expected over the forward-looking reported period. This updated forecast has been prepared collaboratively between the council and The Barnet Group.

## 5.3 Legal and Constitutional References

- 5.3.1 The Localism Act 2011 reformed the way that council housing is financed in England and Wales. The national HRA subsidy system ended in April 2012 and was replaced with self-financing.
- 5.3.2 Under the Local Government & Housing Act 1989, a local housing authority has a duty to keep a Housing Revenue Account (which is ring-fenced) and to formulate and implement proposals to ensure that for each financial year it does not show a debit balance. These proposals need to be considered regularly, and adjusted as needed.
- 5.3.3 Article 2 of the council's Constitution defines a 'key decision' as 'one which will result in the council incurring expenditure or savings of £500,000 or more or is significant in terms of its effects on communities living or working in an area comprising two or more Wards'. Key decisions are to be taken by the relevant Committee unless reserved to full Council (Article 10.3).
- 5.3.4 Article 7 of the council's Constitution states the Housing and Growth Committee's functions include responsibility for:

(1)

- Housing (including: housing strategy; homelessness; social housing and housing grants; private sector housing and leasing; housing licensing and enforcement; ; HRA Revenue Account and Capital Programme);
- Regeneration Strategy and Overseeing Major Regeneration Schemes
- Asset Management
- Development of Council Land
- Fire Safety
- Economic Development including: Employment Strategy; Business Support and Engagement; and Town Centres

(2) To submit to the Policy and Resources Committee proposals relating to the Committee's budget (including fees and charges) for the following year in accordance with the budget timetable.

(3) To make recommendations to Policy and Resources Committee on issues relating to the budget for the Committee, including virements or underspends and overspends on the budget. No decisions which result in amendments to the agreed budget may be made by the Committee unless and until the amendment has been agreed by Policy and Resources Committee.

(4) To receive reports on relevant revenue and capital expenditure, contracts, performance information performance) and risk on the services under the remit of the Committee.

## **5.4 Insight**

5.4.1 No specific insight data has been used in the updating of the HRA Business Plan.

## **5.5 Social Value**

5.5.1 Social value considerations will be considered in the individual investment decisions.

## **5.6 Risk Management**

5.6.1 There is a risk that costs assumed in the HRA Business Plan will be higher than anticipated, particularly wage inflation which is subject to national negotiations. Further amendments to the Rent Standard could impact income negatively. A 5% rent increase has been assumed for each of the next 2 years. Changes to interest rates also have a material impact on the HRA. Mitigations will be sought but the adverse changes in the last 6 months (interest rates and rent 'cap') mean that there is very limited resilience in the business plan.

5.6.2 The HRA has over £400m of debt, just under 50% of this needs to be refinanced within the 30-year business plan. Projected interest rates at the time of refinancing (approx. 2040 onwards) are significantly higher than previously anticipated and if they are (as treasury advisors have forecast) at 5.5% this would lead to the Minimum Reserves Policy being breached. Mitigating actions will be considered closer to the refinancing periods.

5.6.3 The macro-economic environment is creating cost pressure for all households, especially our residents. The uncertainty as to how benefits might rise next year (and if sufficient to pay higher rents) is adding to the uncertainty and thus our potential to collect rents from tenants. This will likely lead to increased arrears and possibly bad debts.

5.6.4 The additional investment in Grahame Park, fire safety and improvements to the quality of the council social housing has meant that the HRA has significant debt meaning that delivery of EPC B targets by 2030 and 'net zero' by 2050 will require significant levels of government support via grants, low interest loan or other similar support; these cannot be funded from the HRA alone.

## **5.7 Equalities and Diversity**

5.7.1 Under s.149 of the Equality Act 2010, the council must, in the exercise of its functions have due regard to the need to: a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; b) advance equality of opportunity between those with a protected characteristic and those without; c) foster good relations between those with a protected characteristic and those without. The 'protected characteristics' referred to are: age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation. It also covers marriage and civil partnership with regard to eliminating discrimination.

5.7.2 Investment in existing council housing stock will impact positively on existing council tenants who are generally more diverse than the population of the borough as a whole. New family sized housing that is being delivered through the HRA Business Plan will be

available to households in need, including homeless applicants who are likely to be more ethnically diverse and younger than existing council tenants. The HRA will also be used to support vulnerable older people and wheelchair users. The council will have proper regard to any Equality Act issues arising from any proposals coming forward.

## 5.8 Corporate Parenting

5.8.1 In line with Children and Social Work Act 2017, the Council has a duty to consider Corporate Parenting Principles in decision-making across the council. The HRA Business Plan proposals will ensure that existing council properties in the HRA, some of which are used to provide housing for foster parents and care leavers are managed and maintained. In addition, the HRA Business Plan supports an increase in the supply of affordable housing, including larger properties, some of which will provide housing suitable for foster parents and care leavers.

## 5.9 Consultation and Engagement

5.9.1 The council consults with tenants, residents, and stakeholders on the Housing Strategy. This document has informed the HRA Business Plan to ensure that the available resources are used to help the council achieve its housing priorities.

## 5.10 Environmental Impact

5.10.1 The Business Plan as presented will ensure Council homes meet EPC C legal requirements by 2030 and there is some spending towards 'net zero'. Barnet Homes has already secured grant funding for stock retrofitting works, are awaiting the outcome of a bid to wave one of the Social Housing Decarbonisation Fund and plan to submit further bids in subsequent waves. The council have set very ambitious targets for the decarbonisation of the council housing stock, including achieving an average rating of EPC B by 2030 and net zero as soon as possible following that. To understand the work required to deliver these targets, it is first necessary to develop a detailed understanding of the stock. Barnet Homes are currently in the process of completing the second tranche of stock condition surveys and energy assessments, which will provide high quality data for 40% of the current stock. This will in turn, allow 3rd party experts to undertake an analysis of costed options to achieve the targets set. An accelerated survey and assessment process for a further 40% of the stock will take place in 2022/23, further enhancing the ability to progress this agenda most prudently.

## 6. Background papers

Meeting	Decision	Link
Housing & Growth Committee 17 February 2022	Approval of HRA Business Plan	<a href="#">Agenda for Housing and Growth Committee on Thursday 17th February, 2022, 7.00 pm (moderngov.co.uk)</a>  Item 13
Housing & Growth Committee 13 September 2021	Approval of HRA Business Plan	<a href="https://barnet.moderngov.co.uk/ieListDocuments.aspx?CIId=696&amp;MIId=10846&amp;Ver=4">https://barnet.moderngov.co.uk/ieListDocuments.aspx?CIId=696&amp;MIId=10846&amp;Ver=4</a>

		Item 16
Housing & Growth Committee 14 June 2021	Approval of HRA Business Plan	<a href="https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&amp;MId=10845&amp;Ver=4">https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&amp;MId=10845&amp;Ver=4</a>
		Item 9
Housing & Growth Committee 27 January 2020	Approval of HRA Business Plan	<a href="https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&amp;MId=9931&amp;Ver=4">https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&amp;MId=9931&amp;Ver=4</a>
Housing Committee 14 January 2019	Approval of HRA Business Plan	<a href="http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=9488&amp;Ver=4">http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=9488&amp;Ver=4</a>
Housing Committee 10 October 2018	Approval of draft Housing Strategy and Homelessness and Rough Sleeping Strategy	<a href="http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=9487&amp;Ver=4">http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=9487&amp;Ver=4</a>
Housing Committee 23 October 2017	Approval of HRA Business Plan	<a href="http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=9237&amp;Ver=4">http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=9237&amp;Ver=4</a>
Council 20 October 2015	Approval of Housing Strategy and Business Plan	<a href="http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=162&amp;MId=8340&amp;Ver=4">http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=162&amp;MId=8340&amp;Ver=4</a>
Housing Committee 19 October 2015	Approval of HRA Business Plan	<a href="http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=8268&amp;Ver=4">http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=699&amp;MId=8268&amp;Ver=4</a>