



Public Accounts Select Committee

Housing Revenue Account Update

Date: 14th March 2024

Key decision: No.

Class: Part 1

Wards affected: None Specific

Contributors: Executive Director of Corporate Resources and Executive Director of Housing

Outline and recommendations

The Housing Revenue Account is currently showing a financial pressure of £7m, as at period 10 2023/24. This paper gives some background to the financial pressure faced, action which has been taken by the service to reduce costs in this area as well as future plans for the service.

Timeline of engagement and decision-making

14th March 2024 – Housing Revenue Account Update 2023/24 to Public Accounts Select Committee

1. Summary

- 1.1. This report sets out the context in which the Housing Revenue Account (HRA) service is operating and the challenges faced by the service. It goes on to set out the measures which are in place to address these challenges both in the current and forthcoming financial year.
- 1.2. Since the insourcing of Lewisham Homes (LH) the delivery model of the HRA services has changed significantly internally, with a new Directorate Management Team (DMT), changes at senior management level, the implementation of a new Housing Management System (HMS) as well as a significant change in culture from that of a company to a council run housing service.
- 1.3. In 2023/24 there is a budgeted £88.2m capital programme, of which £65.6m is for the Decent Homes programme. In revenue there is a gross expenditure budget of £121m which is largely funded by income from tenants (rent and leaseholder service charges).
- 1.4. As part of 2024/25 budget setting, the council produced their first HRA business plan since the service came back into the council, this takes into account the latest information on rental income and planned expenditure (revenue and capital) to enable a balanced budget to be set for 2024/25 and a balanced business plan over the next 30 years.
- 1.5. A legacy LH company remains to manage the 152 acquired properties.

2. Recommendations

- 2.1. The purpose of this report is to update Public Accounts Select Committee on the HRA. Public Accounts Select Committee are asked to: Note the briefing and work being undertaken.

3. Policy Context

- 3.1. The Council's strategy and priorities drive the budget with changes in resource allocation determined in accordance with policies and strategy. This report aligns with Lewisham's Corporate Priorities, as set out in the Council's [Corporate Strategy \(2022-2026\)](#):
 - Cleaner and Greener
 - A Strong Local Economy

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- Quality Housing
 - Children and Young People
 - Safer Communities
 - Open Lewisham
 - Health and Wellbeing
- 3.2. This financial position demonstrates the impact of the very severe financial constraints which have been imposed on Council services with the cuts made year on year, despite the increasing demand to deliver services to the growing number of borough residents. The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and strategy.
- 3.3. The Council's strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.
- 3.4. This joint endeavour helps work through complex challenges, such as the pressures faced by health and social care services, and to secure investment in the borough for new homes, school improvements, regenerating town centres, renewed leisure opportunities and improvement in the wider environment. This work has and continues to contribute much to improve life chances and life opportunities across the borough through improved education opportunities, skills development and employment. There is still much more that can be done to realise our ambitions for the future of the borough; ranging from our work to increase housing supply and business growth, through to our programmes of care and support to some of our most vulnerable and troubled families.
- 3.5. The pace, scope and scale of change has been immense: the current cost of living crisis is demanding agility, creativity, pace, leadership, organisational and personal resilience, strong communications and an unerring focus on the right priorities. The service and finance challenges following Covid are now blending with the wider economic implications of a decade of austerity and erosion of public services, the trading changes arising from Brexit, and the impacts from other global events (e.g. war in Ukraine and extreme climate events, etc..) on supply chains and inflation levels.
- 3.6. While we do not yet fully understand what all of the long-term implications of the above will mean for the borough, there have been many clear and visible impacts on our residents, Lewisham the place and also the Council. We know that coronavirus disproportionately affected certain population groups in Lewisham, matching patterns that have been identified nationally and internationally: older residents, residents born in the Americas & the Caribbean, Africa or the Middle East & Asia, and residents in the most deprived areas of the borough have considerably higher death rates. We know that more Lewisham residents are claiming unemployment benefits compared to the

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- beginning of this year and that food insecurity has increased in the borough.
- 3.7. The contents of this report are consistent with the Council's policy framework. It supports the achievements of the Corporate Strategy objectives: Tackling the housing crisis – Everyone has a decent home that is secure.
 - 3.8. The contents of this report support the achievement of the following Housing Strategy 2020-26 objectives: Preventing Homelessness and meeting housing need, Improving the quality, standard and safety of housing and Supporting our residents to live safe, independent and active lives.

4. Background

- 4.1. The HRA is a ring-fenced account that covers the income collected through rents and service charges that council tenants pay and the expenditure on council homes and services to tenants. There is also borrowing against the account in order to fund capital investment in the housing stock.
- 4.2. Revenue expenditure is used to manage, repair and maintain the housing, as well as to pay borrowing costs (interest and repayments). The HRA is also used for stock investment, planned programmes and to part fund new build works, through the HRA capital programme.
- 4.3. The Housing self-financing system was implemented on 1 April 2012 when the HRA subsidy scheme was abolished. The HRA has a 30 year business plan which has been developed based on current management arrangements and rental income estimates, updated for efficiencies and cost pressures. In addition, policy objectives such as decent homes, sheltered housing and new build plans are incorporated into the modelling.
- 4.4. The plan underwent a major revision in 2015 for a 1% reduction in social rents applied each year for four years from 2016/17 to 2019/20. The impact of the change was a loss of actual rental income of £2.8m when measured against the actual rent roll for the 4 financial years. A loss of £25m against the budgeted resources for the same period and an overall loss of resources assessed at £374m over the life of the 30 year business plan.
- 4.5. Subsequently, from April 2020 government lifted the rent reduction policy and allowed councils with social housing stock to return to the previous method of rent increase calculations to at least 2025. This method of rent increase is based on CPI + 1%, which was the Government's policy for rent increases. This method had been implemented in Lewisham and became effective for rental increases applied from April 2020 onwards.
- 4.6. However, due to the cost-of-living crises and high inflation which would impact on rent increases, Government issued a consultation in September 2022 seeking opinion from Local Authorities on capping rent increases for 2023/24 to 3%, 5% or 7%, or to allow increases to follow the policy guidance of CPI + 1%. Any capping of increases would result in a loss to the HRA, the consultation closed on 12th October 2022 and the government's response to the consultation was to confirm and issue a notice to the regulator of social housing to cap rent increase to a maximum of 7% in 2023/24, without additional funding

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- to housing providers.
- 4.7. For financial year 2024/25, Government has not sought to reduce or cap the forecast rent increases which are based on CPI + 1%. The CPI data for September 2023 was 6.7% and therefore rent will increase by 7.7% based on the government's formula rent calculation. This results in an average increase of £8.57pw over a 52-week period. This will increase the full year average dwelling rent for the London Borough of Lewisham HRA stock (as at April 2023) from £111.33pw to £119.91pw.
 - 4.8. The HRA financial model has therefore been updated with current government formula rent calculations at a maximum of 7.7% for financial year 2024/25. Long term rental forecasts are based on the assumption of rent increases based on CPI + 0.5%.
 - 4.9. HRA's are facing significant financial pressures across the country and in London boroughs. These pressures have been driven by the previous policy to reduce social housing rents by 1% for four years from 2016/17 but have also been compounded by the impacts of the COVID-19 pandemic, rising inflation impacting on the HRA cost-base and increasing demands on funding as noted above whilst continuing to achieve a balanced HRA.
 - 4.10. Since Grenfell, our top priority is to make our blocks safe; we also want to get all of our homes to decent homes standard and, particularly following the tragic case of Awaab Ishaak, make all homes safe from damp and mould. Given the age of much of our stock, these works are costly and will severely impact the HRA. The lack of funding from the government means we are increasingly having to choose which of these crucial works to prioritise.
 - 4.11. The demands on the HRA arise from the increasing investment needs of an ageing portfolio of properties, changes in legislation and the resources required to support delivery. A review of current investment needs and priorities continues to be refreshed, based on updated surveys and inflation estimates. This includes assumptions on future liabilities including maintaining and improving housing decency through a range of investment programmes including: Fire and Building safety, statutory compliance, Energy efficiency and lifecycle replacement.
 - 4.12. These assumptions have been used to inform the resource need and identify potential gaps in funding and opportunities for additional income and grants. A stock condition survey has been procured and was started in February 2024. This will provide detailed information on the decency of the stock and energy efficiency which will then be used to inform urgent works but also longer term investment planning.
 - 4.13. In order to protect the business plan and provide the same level of investment and services, any reduction in income will need to be off-set through increased efficiencies and reprioritisation of investment requirements across stock condition and/or development plans.

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5. Current Position

- 5.1. The LH ALMO was in-sourced on 1st October 2023 as agreed by Mayor & Cabinet in their meeting of 9th December 2022.
- 5.2. As part of this insourcing a new Directorate management team (DMT) has been put in place as follows:
 - Gillian Douglas - Executive Director Housing.
 - Nahim Ruhi-Khan - Director of Housing Quality and Investment.
 - Carol Hinvest - Director of Housing Resident Engagement and Services.
 - Fen Beckman - Director of Housing Strategy
- 5.3. The financial pressure reported in the monthly monitoring reports has been consistently between £6m and £7m across 2023/24, both when the housing service was with LH and since it moved back to the council.
- 5.4. A phased approach to transfer was taken with some support services such as Finance and IT transferring back to the council in May 2023. The remaining, bulk of circa 500 staff transferred on 1 October 2023, which has led to a significant change for staff TUPE back to the council. In addition, the new Housing Management System (HMS) which was intended for implementation by LH in February 2023, was behind schedule and had to be implemented in December 2023. Central services such as Audit, Governance and HR are now also being provided by the council departments.
- 5.5. Since joining the Council the new DMT have been working at pace to understand the challenges faced by the HRA. Several warning signs flagged that the service required significant intervention, these included:
 - high level of resident complaints
 - low resident satisfaction, particularly with repairs
 - budget overspend
 - 17% of homes being non-decent as recorded by LH
- 5.6. As a result, in December a self-referral was made to the Social Housing Regulator for a potential breach of the Home Standard in relation to Response Repairs, Decency and the number of overdue fire safety actions. Additional information has since been provided to the Regulator at their request. We await the Regulator's determination on this matter
- 5.7. As part of the programme of change and improvement a new governance structure within housing has been set up to monitor key service challenges and high expenditure areas. A housing transformation programme board was established in late November with the aim of improving the quality of services offered to residents. The Housing Transformation Programme Board (HTPB) is set up to ensure that there are the right resources, programmes and plans in place to be able to deliver the most efficient and effective housing service to residents.

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5.8. This Board will oversee and prioritise the programme of change needed to meet the objectives set within the Housing Services Strategy. The number of projects will change over time and this Board will be an ongoing part of the Housing Services Directorate governance. The board will provide decisions and approvals in relation to the programme of change, resources and tasks associated with the Housing Transformation Programme (HTP). It will oversee and monitor the progress of transformation including:

- An overall, prioritised programme of transformation activity that will become business as usual, including goals, objectives and performance improvements.
- A review of the delivery of key services that have transitioned into the Council with options for transformation.
- Ensure there is sufficient staff resource and capacity to deliver the programme.
- Ensure relevant approvals are sought to ensure sufficient financial resources are in place.
- Report to relevant internal and external Boards and Committees on progress and outcomes.

5.9. The board will:

- Approve, prioritise, and monitor delivery of transformation plans.
- Manage the risks and issues associated with the overall HTP.
- Make decisions and give approval as required where relevant risks, actions, issues and decisions log (RAID logs) and implementation plans are provided, to ensure transition transformation is achieved in a timely manner.
- Consider the wider needs of the council and ensure future plans are deliverable within its' resources.
- Recommend key changes through appropriate channels.
- Ensure collaboration across all Directorates in the delivery of the programme and that it is supported with effective communication with staff and residents.

5.10. Expected outcomes:

- An overall Housing Transformation Programme Plan to deliver the objectives, reporting to the Housing Futures Board (HFP) board.
- Regular, updated highlight reports.
- Robust monitoring of performance improvement of all transformation activities.
- Overall Risk, issues and actions logs.
- An updated budget requirement.

5.11. The board is chaired by the Executive Director of Housing, with other attendees

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including Housing Services Directors, other Directors including the Director of Finance as well the transformation programme lead and the programme manager.

6. Financial Implications

- 6.1. At Period 10, the forecast is an overspend of £7m, after taking mitigation action to reduce the gross pressure of £21m. The key overspends are £9.7m on Repairs and Maintenance (R&M) and a major works income deficit of £7.5m which is based on the bills that have been raised as at December 2023 compared to the budgeted income target. The reported position has remained largely consistent across the whole of 2023/24. It should be noted that this overspend could increase further due to ongoing challenges with regards to the volume of and cost of R&M.
- 6.2. Mitigation actions taken to reduce the potential £21m pressure are as follows: £3m Rent in excess of budget from buy backs and new build in 2023/24, £5.6m contribution to capital from revenue not released due to programme slippage, £1m of Milford Towers income currently in the general fund for TA costs and £0.5m lower interest costs as borrowing less than forecast due to programme slippage.
- 6.3. In addition, bad debt impairments charge to the HRA are forecast to be £1.3m lower than budgeted, based on the current levels of debt projected forward for the remainder of the financial year and is included in the forecast..
- 6.4. These are largely one off measures taken in year to bring down the reported financial pressure, permanent action is required to reduce expenditure or increase income levels to ensure the HRA can balance and reserves can be maintained at the required level. Finance and the service are working together as part of the transformation programme to ensure that budgets can be reallocated. £1.5m of savings have been found which means these budget can be realigned to fund activity across other parts of the HRA.
- 6.5. The 2023/24 forecast for capital spend is £63.7m for the HRA Capital Programme (Inc. Decent Homes), which includes up to £10m of Capitalised Repairs/Voids costs. The forecast spend for the HRA element of the Building for Lewisham (BfL) programme is £20.4m. Both of these have been reprofiled in November 2023, again slippage has been reprofiled to future years.

7. Legal implications

- 7.1. Section 74 Local Government and Housing Act 1989 requires housing related property to be accounted for in the Housing Revenue Account (HRA) and Section 76 obliges the Council to prevent a debit balance on that account. Rents must therefore be set to avoid such a debit. The Council must keep its HRA separate from other housing activities and not allow cross subsidy to or from the Council's General Fund resources. On 10th November 2020 Government guidance on the operation of the HRA ring-fence was published. The guidance highlights the need to be fair to both tenants and Council

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taxpayers and that there should be fair and transparent apportionment of costs between the HRA and the General Fund in accordance with the legislation.

- 7.2. Under sections 167-175 of the Localism Act 2011 new provisions were introduced which ended the HRA subsidy system and replaced it with self-financing arrangements. Section 171 empowered the Secretary of State to make provision relating to the level of indebtedness. On 29th October 2018, the HRA borrowing cap was abolished and as a result, local authorities with an HRA are able to borrow against their expected rental income provided this is in line with the current CIPFA Prudential Code.
- 7.3. Pursuant to section 28 of the Local Government Act 2003, the Council is under a statutory duty to periodically conduct a budget monitoring exercise of its expenditure and income against the budget calculations during the financial year. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such remedial action as it considers necessary to deal with any projected overspends. The Council must act reasonably and in accordance with its statutory duties and responsibilities when taking the necessary action to reduce the overspend.

8. Equalities implications

- 8.1. The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 8.2. There are no equalities implications directly arising from this report.

9. Climate change and environmental implications

- 9.1. There are no specific climate and environment implications directly arising from this report.

10. Crime and disorder implications

- 10.1. There are no specific crime and disorder implications directly arising from this report.

11. Health and wellbeing implications

- 11.1. There are no specific health and wellbeing implications directly arising from this report.

12. Background papers

- 12.1. Budget Report 2023/4: [Microsoft Word - 2023 24 Budget Report Council 1March clean \(lewisham.gov.uk\)](#)

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13. Report author(s) and contact

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14. Appendices

14.1. N/A

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