Meeting Name:	Audit, Governance and Standards Committee
Date:	5 September 2024
Report title:	Housing Revenue Account Update
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Ian Young, Assistant Director of Finance

RECOMMENDATION

1. The Committee is asked to note the report.

BACKGROUND INFORMATION

2. At a previous Committee, Members asked to be kept informed on progress made in relation to improving the financial health of the Council's Housing Revenue Account. This matter was flagged as a risk in a recent external auditor's report. It was agreed that periodic information update reports be brought to Committee to provide Members with visibility of progress being made.

3. During discussion, members were informed that the Council has devised a HRA Recovery Plan to strategically control the path of delivery over coming years. This report seeks to update the Committee on the key components of that plan and also outlines the HRA outturn position for 2023/24. Updates on 2024/25 budget delivery will be brought to future committees.

HRA Recovery Plan

4. The council manages its housing stock through its ring-fenced landlord account, the Housing Revenue Account (HRA). Early in the last financial year, it was clear that the HRA had structural financial issues and that, if not immediately tackled, would lead to greater difficulties in the future.

5. This position is the result of several factors, some of which are outside the council's control, such as government policy and macro-economic events which include:

Macro-economic factors

- The cumulative effect of a government imposed 1% rent reduction for four years for the period 2016-17 to 2019-20, running into hundreds of millions in income foregone.
- A government imposed 7% cap on rents from 1st April 2023, when formula

rent would have yielded 11.1%, an annual loss of £9m+ in the current year and a reduced income base going forward,

- Unfunded additional burdens arising from the Fire Safety and Building Safety Acts of 2020 and 2021,
- Unprecedented construction industry inflationary pressure.

Internal Factors

- The additional borrowing requirement for the new homes and asset management programmes compounded by the impact of a three-fold increase in interest rates since December 2021, which has substantially increased the revenue impact of financing costs in the HRA.

6. Immediate steps were taken to mitigate the pressures within the HRA.

- Strengthened governance arrangements including the creation of an officer Budget Recovery Board, jointly chaired by the Strategic Directors of Finance and Housing, to oversee the progress towards a financially sustainable HRA,
- A moratorium on non-essential spend.
- A freeze on non-essential recruitment.

7. Alongside steps to bring the HRA onto a sustainable footing in the medium to long term through agreeing revised cash limits for services to operate within. These cash limits would reset the baseline for future budget allocations.

8. These cash limits have been agreed with service directors, who have been planning on how service delivery can be maximised within limited financial resources. The cash limits themselves fully distribute the planned HRA financial resources across services, with little held as an in-year contingency. Therefore, there is limited scope for dealing with financial pressures not contained within these agreed cash limits, except for using already-diminishing reserves.

9. To deliver these cash limits, estimated savings of c£19m would be required. Services reviewed options and presented savings that would be achieved within the 2024-2024 financial year, which would be monitored by the Budget Recovery Board during the year.

KEY ISSUES FOR CONSIDERATION

2023 / 24 HRA Financial Performance

10. The gross overspend on tenant facing budgets of £31.3m was partially offset by financing and one-off underspends, showed a final adverse variance of £16.4m (Table 1) before mitigations to bring the HRA into a balanced position.

11. To balance the £16.4m overspend, capital spend that would normally have been funded through revenue contributions, has been funded through additional unplanned borrowing. Overspends on the Asset Management programme mean that, a total of £59m has been borrowed for Asset

Management in 2023-24. This is the first time the council has had to do this, having previously earmarked all borrowing for the New Homes programme.

Table 1 HRA Outturn 2023-24

Category		Outturn	Variance	Change since M8
	£000	£000	£000	£000
HRA Expenditure				
Resident Services (Housing Management)	59,636	73,181	13,545	2,838
Asset Management (Repairs and Maintenance)	69,629	85,323	15,694	3,373
New Homes	670	984	314	-180
Customer Services	5,272	7,091	1,819	109
Directorate	1,952	1,926	-26	205
Total Tenant Facing Services	**137,158**	**168,505**	**31,347**	**6,346**
Exchequer Services (incl. Homeowner Services)	16,439	19,642	3,203	-904
Central Services	31,958	26,949	-5,009	-1,521
Heating Account	15,498	24,145	8,647	4,905
Total Corporate Support Services	**63,895**	**70,736**	**6,841**	**2,480**
Debt Financing	32,505	25,066	-7,439	-3,436
Depreciation	53,000	46,857	-6,143	-4,643
Revenue Contribution to Capital	22,987	17,039	-5,948	1,652
Total Capital Financing	**108,492**	**88,962**	**-19,530**	**-3,947**
Capital, Financing and Support Services	**172,386**	**159,698**	**-12,688**	**-3,947**
Total HRA Expenditure	**309,545**	**328,203**	**18,658**	**2,399**
HRA Income				
Tenant and Homeowner Charges	-294,238	-295,626	-1,388	-2,662
Non-residential Property Charges	-15,307	-16,225	-918	-319
Total HRA Income	**-309,545**	**-311,851**	**-2,306**	**-2,981**
Total HRA	**0**	**16,352**	**16,352**	**-581**
Mitigation Measures to Balance the HRA				
Reduce Revenue Contribution to Capital		-13,815		
Application of Reserves		-2,537		
		0		

HRA - Mitigating Actions

12. Previously, to address the situation, the council had collectively assessed options to manage the short-term pressure by reducing in-year spend. Additionally, more medium to longer term actions were undertaken to further moderate the future impact of this through, for example, the repairs improvement programme, an end-to-end review of void properties and the refresh of the asset management strategy.

13. Additionally, the scheme of management has been reviewed and robust spending controls implemented. It continues to be a council strategic priority to consider how the HRA can be managed in the longer term to ensure financial sustainability, including:

- Setting cash limits within which services are required to operate,
- Improving procurement practices and continue to embed more robust contract management to maximise outcomes and achieve value for money,
- Agreeing a plan to maintain HRA reserves to their current level and to increase to a more prudent level over the medium term,
- Continuing to lobby central government, for appropriate funding for social housing,
- Limiting and ultimately repaying any borrowing for the asset management capital programme,
- Maximising capital receipts through the sale of uneconomic assets and land to reduce the borrowing burden on the HRA,
- Applying prudent viability criteria to all new build projects to minimise the need for borrowing,
- Pausing a small number of new build schemes to limit the council's borrowing and ensure that interest repayments remain affordable,
- Taking all necessary steps to limit the impact of capital financing on the HRA to an affordable level, considering all other service demands and priorities.

14. It should be noted that the pressures on the HRA are not unique to Southwark. The impact of the rent capping policy and rent increases below inflation, coupled with above inflation running costs, rising interest rates and energy costs are impacting on all councils responsible for social housing. But the impact is more pronounced for Southwark given it has the largest social housing stock in London and is the fourth largest social landlord in the country.

15. To protect the limited HRA reserves held, the deficit on the HRA will be managed by reducing the revenue contribution to funding capital expenditure. This is an approach that has been avoided previously as it adds additional pressure to the revenue account (through the interest payments on the borrowing) and it reduces the borrowing headroom available for the new build programme. This additional borrowing will increase the interest payable on debt by around £400k per year until repaid, further increasing the financial pressure into 2024-25 and beyond.

16. Additional borrowing of £59m has had to be undertaken for the asset management programme, which will incur additional interest payments over

and above the legacy debt and borrowing for the new homes programme. This is an unprecedented step by the council as a short-term measure within the HRA recovery plan.

2023-24 Tenant Facing Services

17. For 2023-24, an additional budget provision of £11.4m was made across tenant facing services. Despite the actions mentioned above, the cost of these services has continued to rise, increasing to £168.5m by year end, an overspend of £31.3m. The cash limit for 2024-25 were agreed based on a forecast position before this further increase, therefore a greater level of spend reduction will now need to take place in 2024-25, which has been reflected in the planned savings targets.

18. For resident services the main pressure areas were a higher volume and unit cost of estate voids, together with increases in the estate cleaning and grounds maintenance contract costs provided through the Environment, Neighbourhoods and Growth (ENG) department. This was predominantly driven by the 2023-24 pay award (which was higher than previously estimated). Other contributory factors were Tenant Management Organisation (TMO) costs, energy costs for estate lighting, council tax losses on long term voids and planned maintenance works on Tenant Resident Association (TRA) Halls.

19. For asset management, the main cost pressures were on repairs and maintenance to the housing stock, particularly through Southwark Repairs, where the final deficit was £12.2m, together with communal works, disrepair, voids and ‘damp and mould’ remedial work.

20. Within the new homes division, the nature of the work is predominantly project specific, therefore a high proportion of costs are capitalised. In 2023-24, the overspend reduced from a forecast of £0.5m to a final value of £0.3m. However, as the programme slows and re-phasing takes place, it is anticipated that costs will reduce from this year, which may impact on the level of capitalisation that can be charged and may give rise to abortive feasibility costs being charged to revenue.

21. Customer services has a relatively small revenue budget by comparison to others within the HRA (£5.3m), which covers a significant proportion of the costs of the contact centre, customer complaints and other housing specific services. Given extremely high call volumes and housing related activity the created an overspend of £1.8m in 2023-24 due to higher pay costs and additional resources that have been put in place to address severe capacity shortfalls, predominantly related to the repairs service and in anticipation of further call growth over the winter period.

Capital, Financing and Support Services

22. Whilst the cost of debt has increased following the decision to reduce the revenue contribution to fund capital expenditure, there have been other significant spend reductions in this area which has mitigated the increased expenditure in tenants facing services. As interest rates payable on debt has

increased, so has interest receivable on cash balances. This generated a windfall of £6m. Depreciation on dwelling stock has been revalued downwards, further increasing the capacity to temporarily offset spending pressures elsewhere within the HRA.

Tenant and Homeowner Charges

23. The final tenant rents and service charge income was higher than forecast in 2023-24 due to new homes coming online, a reduction in the rents foregone on void properties and homeowner income from loan interest and charges.

24. The overall recovery plan is also predicated on capital receipts from the disposal of appropriate properties. This process is on track to achieve the desired value of receipts. The sale of assets in 2024-25 is expected to achieve £25m.

Position of the HRA in 2024-25

25. The month 4 revenue and capital monitoring reports are on the September cabinet agenda. Both reports have updates on the HRA and HIP, savings delivery and progress towards a financially sustainable HRA.

Community impact statement

26. There are none

Equalities (including socio-economic) impact statement

27. There are none

Health impact statement

28. There are none.

Consultation

29. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
None	

AUDIT TRAIL

<table>
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<tr><td>Assistant Chief Executive, Governance and Assurance</td><td>No</td><td>N/A</td></tr>
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