

<b>Committee:</b>	Cabinet	<b>Date:</b>	16 March 2023
<b>Title:</b>	Housing Revenue Account 2023/24 – Update		
<b>Portfolio Holder:</b>	Portfolio Holder for Finance and Budget		
<b>Report Author:</b>	Jody Etherington, Assistant Director of Finance JEtherington@uttlesford.gov.uk	<b>Key decision:</b>	Y

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## Summary

1. In August 2022, the Council referred itself to the Regulator for Social Housing in respect of a potential breach of the Home Standard. Since then, significant work has been undertaken at speed in order to identify, understand and rectify the underlying issues in accordance with a detailed 'Path to Compliance Action Plan' (see Appendix C).
2. In addition, in December 2022, the Council committed to undertake a full stock condition survey of its entire housing stock. This was primarily to understand the extent of any issues concerning damp and mould, which has been a focus of all landlords nationally following the tragic death of Awaab Ishak in Rochdale. This work commenced in January 2023, and although it is not anticipated to conclude until early 2023/24, interim findings have now allowed officers to begin to project the cost implications to the Housing Revenue Account (HRA) of dealing with the sizeable number of category 1 and 2 hazards (i.e. the most serious types) which have been identified.
3. The pace of all of this work has been such that the full financial implications were not fully developed at the time of setting the Housing Revenue Account (HRA) budget for 2023/24. As such, the revenue budget which was approved by Council is no longer sufficient to support the level of service which the Council's tenants deserve and require.
4. Cabinet is therefore recommended to approve additional one-off revenue expenditure of up to £1 million during 2023/24, to be funded by a reduction in revenue contributions to capital. This is set out in further detail throughout this report.
5. During 2023/24, a full review of the HRA revenue budget will be undertaken with an aim of returning to an annual breakeven position in the medium-term – this will take place alongside the ongoing refresh of the 30 Year Business Plan.

## Recommendations

6. Cabinet is recommended to:
  - a. approve additional one-off HRA revenue expenditure of up to £1 million in 2023/24, as set out at Appendix A;
  - b. note that this additional expenditure will be financed by replacing up to £1 million of planned revenue contributions to capital with currently uncommitted capital receipts (under the principle already set out in the Capital Programme 2023/24 that capital receipts be used before revenue contributions where possible); and
  - c. in the event that the capital receipt from the Walden Place redevelopment is not received by 31 March 2024, approve a temporary increase in HRA internal borrowing of up to £1 million until such time as the receipt arrives, at which point the borrowing will be repaid.

## Financial Implications

7. As set out throughout this report.

## Background Papers

8. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

## Impact

- 9.

Communication/Consultation	Informal Cabinet Briefing
Community Safety	None
Equalities	See attached EqHIA
Health and Safety	If the requested expenditure is not approved, this may impact upon the Council's ability to deliver safety critical work on its housing stock
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None

Workforce/Workplace	Budgetary approval is being sought to create 5 new posts in a new Contract Management Team, as well as to extend the contract of the Interim Director of Housing
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## Situation

10. On 23 August 2022, the Chief Executive self-referred the Council to the Regulator for Social Housing in respect of a potential breach of the Home Standard. The background to this was set out in detail in a report to the Governance, Audit and Performance Committee on 31 August 2022, and an update was provided to Cabinet on 22 December 2022.
11. In response to the issues identified, the Council, with the help of a team of independent external experts, developed a 'Path to Compliance Action Plan' which was shared with the Regulator. This consists of 13 high priority and 6 medium priority actions to be delivered by the end of March 2023.
12. Tenant safety is of paramount importance to the Council, and this has meant that work on delivering these actions has continued at pace, including over and beyond the budget-setting period. As a result of this, and other recent external developments, the HRA revenue budget set for 2023/24 is now insufficient to support the required level of service for tenants.
13. Cabinet is therefore recommended to approve additional one-off revenue expenditure of up to £1 million during 2023/24. This will be funded from a reduction in revenue contributions to capital expenditure, as set out at paragraphs 33 to 38 below.
14. The main areas of additional spend, which were unforeseen at the time that the original budget was prepared, are set out in the following paragraphs, and summarised at Appendix A.

### Contract Management Team

15. In implementing the Action Plan, it has become apparent that there are weaknesses in the Council's management of its housing repairs and maintenance arrangements. Strong contract management is of vital importance to ensure that limited resources are appropriately prioritised, and value for money achieved.
16. At the time the original budget was set, provision was made for £50,000 of additional ongoing resource in this area, with a caveat that this would be reviewed in year. Further work since then has identified a need for a dedicated Contract Management Team (5 posts) to fully strengthen this function in the future, and to prevent a reoccurrence of the issues which lead to the self-referral in the first place.

17. This team will consist of a manager experienced in both contract management and repairs and maintenance services in particular, two surveyors, a clerk of works, and an administrator. Whilst there is no standard approach to contract management by landlords, the proposed size and structure of the team is considered by the service to be proportionate to the complexity and importance of the work being undertaken, the scale of difficulties experienced locally over the past few years, and the significant amount of money spent on the contract (budgeted at £9.1 million in 2023/24, including both revenue and capital spend).
18. The ongoing cost of the team is estimated at around £275,000, which equates to around 3% of the annual contract spend. In light of the prevailing circumstances and the nature of the risks to tenants, the service deems this a proportionate and necessary investment to ensure that good quality and value for money is obtained from the contract going forwards.
19. As such, after taking account of the £50,000 already committed in the approved budget, an additional ongoing revenue budget of £225,000 is now required to fund this team. In addition, a one-off amount of £72,000 is needed for additional interim contract support in 2023/24, while the permanent team is recruited and embedded.
20. This new housing client team will also support one of the specific actions in the Action Plan, namely 'a future-proofed performance management framework to meet new regulatory/ legislative requirement'. Per the Action Plan, this is the last action to be delivered, taking account of its relative lower priority as compared to more immediate issues related to tenant safety, and the fact that a thorough understanding of the current situation was required before a detailed delivery plan could be developed.

### Damp and Mould

21. Since the tragic death of Awaab Ishak in Rochdale resulting from untreated damp and mould in his family home, every landlord in the country has rightly focussed on understanding their own local challenges in this area. Reports of damp and mould have rocketed to landlords across the country with the greater awareness that followed substantial media coverage, and this is also the case in Uttlesford.
22. On 22 December 2022, Cabinet approved one-off expenditure of up to £500,000 to commission a full stock condition survey on the Council's whole housing stock, including an inspection of damp and mould issues. However, this amount will not cover any remedial works which are required, the cost of which it was not possible to reasonably estimate before the survey had been carried out.
23. Now that the survey is underway, a preliminary estimate of £400,000 has been made for the revenue cost of resolving damp and mould issues in 2023/24. This is a one-off cost to resolve the immediate issues and bring the housing stock up to an appropriate physical state, after which any future damp and

mould instances will be provided for within the normal revenue repairs and maintenance budget.

24. It is possible that there may also be some capital costs, which would be funded from the existing capital repairs and maintenance budget by reprioritising resources from less urgent work.
25. As well as landlord duties in relation to treating serious cases of damp and mould, there are ongoing tenant duties to prevent damp and mould in the first place (such as using extractor fans provided, suitably ventilating homes, etc), which will be positively reinforced by the Council and supported with explanatory advice.

### Interim Director of Housing

26. During summer 2022, an Interim Director of Housing was appointed to work alongside the Assistant Director – Housing, Health and Communities in order to strengthen the amount of housing professional expertise within the Council as it embarked on delivery of the Action Plan.
27. It was originally envisaged that the Interim Director of Housing would leave the Council at or before the end of 2022/23, therefore no provision was made in the 2023/24 budget for this support to continue.
28. However, the Assistant Director – Housing, Health and Communities retired in November 2022. The 2023/24 budget assumed that a replacement would be found, and an attempt was made to do so in February 2023, but this was ultimately unsuccessful. A new recruitment campaign has commenced.
29. In light of this, the Interim Director of Housing has agreed to remain with the Council for the time being whilst other recruitment options are being explored. The total cost to the Council is likely to be in the region of £135,000.
30. This cost assumes an additional 9 months of service, based upon the Council's experience with other hard to recruit senior posts, and also assuming some degree of handover time, particularly given the outstanding issues set out throughout this report. Clearly, should this time not all be required there may be an opportunity for savings, however conversely the cost could increase should recruitment remain challenging.

### Other Revenue Costs and Contingency

31. In addition to the main items outlined above, Cabinet is recommended to approve expenditure of up to £168,000 for other one-off revenue costs arising from the Action Plan and associated issues. This is both for specific items which have already been identified but not necessarily yet fully costed (e.g. legal support), whilst the majority is a contingency amount to recognise the fact that work to resolve the Council's various housing issues is still ongoing, and it is likely that more costs will emerge. These may be related to the items set out above (for example if the revenue cost of damp and mould work

exceeds initial estimates), or to entirely unforeseen circumstances which may still arise.

32. Clearly this contingency amount will only be utilised to the extent it is required, and performance against the HRA budget will be reported to Cabinet on a quarterly basis through the usual budget monitoring reports, with any material areas of new spend highlighted separately.

### Financing Source

33. The approved 2023/24 HRA budget has an operating surplus of £2.866 million. Of this, £2.758 million is planned to be applied to capital expenditure, and £30,000 will be required to be transferred to the working balance reserve, leaving a net contribution to revenue reserves of £78,000. This is clearly insufficient to fund the additional pressures outlined in this report.
34. It is therefore proposed to finance these costs by reducing the revenue contribution to capital expenditure in 2023/24 by £1 million. This will be done by changing the planned source of capital financing for £1 million of in-year expenditure from revenue to capital receipts.
35. Most of the capital receipts held by the HRA are 'right-to-buy' receipts which have significant restrictions on their usage, and are already fully utilised to the maximum extent possible in the 2023/24 budget. However, the Council is expecting to receive a significant capital receipt at the end of the Walden Place redevelopment from the sale of part of the site which is no longer required for service delivery (subject to DLUHC approval of the sale). This receipt will not be subject to the same degree of restrictions on its use, so can be used to replace planned revenue financing of HRA expenditure.
36. The Medium Term Financial Strategy 2023-2028 (MTFS) currently assumes that this receipt will be retained within the HRA to be used to fund future capital expenditure. However, in light of the current pressures, it is now proposed that the first £1 million of this sale be used to finance capital expenditure in 2023/24. This is also in accordance with the approved Capital Programme 2023/24, which states (at paragraph 17) that 'capital receipts will continue to be used first where available'.
37. It should be noted that the MTFS currently assumes that the receipt will arrive in 2024/25, which was a prudent assumption based on the fact that the redevelopment is planned to complete in February 2024. It is still possible that the money will be received in 2023/24 and can therefore be applied directly in year. In the event of a delay, the HRA will temporarily increase its borrowing by £1 million through internal borrowing from the General Fund. Should this be necessary, the temporary borrowing will be repaid when the capital receipt arrives.
38. Clearly there is an opportunity cost in that there will be £1 million less of capital receipts available to fund capital expenditure in the future (i.e. beyond the current 5 year MTFS period), and this will be taken account of during the refresh of the 30 Year Business Plan which is currently underway. This review

will explore all options for financing future capital expenditure, including the use of additional external borrowing where this is deemed prudent and affordable.

### Future Years

39. The majority of the additional costs set out in this report are one-off in nature, and will not impact upon future years. The main exception is the £275,000 per year cost of the Contract Management Team as set out in paragraphs 15 to 20.
40. The current HRA MTFS shows total usable revenue reserves of £1.650 million at 31 March 2028 (the end of the MTFS period). In a worst case scenario, this would be more than sufficient to absorb the additional cost of this team for the four years from 2024/25 to 2027/28, thus demonstrating that the HRA remains financially sustainable in the medium term.
41. Work will continue throughout 2023/24 to review the HRA budget in detail, with the aim of ensuring a return to an annual breakeven position by the end of the MTFS period (after any planned usage of reserves). Any changes arising from this review are likely to be built into the 2024/25 budget and updated MTFS. This work will take place alongside the refresh of the 30 Year Business Plan which is currently underway, to ensure long-term sustainability of the HRA.

### Other Options

42. The alternative options which were considered in the preparation of this report, together with the reasons they have not been recommended by officers, are set out at Appendix B.

## Risk Analysis

43.

Risk	Likelihood	Impact	Mitigating actions
Additional expenditure is still insufficient to address of the issues which emerge from the ongoing work	2 – there is still a reasonable degree of uncertainty around some elements, e.g. the stock condition survey has not fully concluded	2 – HRA revenue reserves are limited so any further draw on this or inability to bring the HRA back into balance in the medium term may threaten longer term sustainability	<p>The budget requested includes a contingency figure which will cover any small overspends.</p> <p>Regular reporting to Cabinet on spend against budget through the quarterly monitoring reports.</p> <p>Latest position to be taken account of during the refresh of the 30 Year Business Plan.</p>

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.