

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 9 November 2021

Subject: Housing Revenue Account Business Plan

Report of: Strategic Director Neighbourhoods and Deputy Chief Executive and City Treasurer

Summary

This report presents members with an update on the Housing Revenue Account (HRA) business plan following the bringing back in house of Northwards Housing the Arm's Length Management Organisation (ALMO) that used to manage the Council's housing stock. It also provides an update on transition progress including updated governance arrangements and workforce update.

Recommendations

The Committee is asked to note and comment on the report.

Wards Affected: Ancoats & Beswick, Charlestown, Cheetham, Crumpsall, Harpurhey, Higher Blackley, Moston, Ardwick, Clayton & Openshaw, Miles Platting & Newton Heath and Piccadilly

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The retrofitting of existing homes to meet zero carbon objectives is at the heart of the revision of the HRA.

Our Manchester Strategy outcomes	Summary of how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	A healthy and fit for purpose affordable housing market will support a functioning local and sub regional economy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	Access to appropriate affordable housing and services will support residents to achieve and contribute to the city.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The supply of affordable good quality homes will provide the opportunity for Manchester residents to raise their individual and collective aspirations.

A liveable and low carbon city: a destination of choice to live, visit, work	The right mix of affordable quality energy efficient housing is needed to support growth and ensure that our growing population can live and work in the City and enjoy a good quality of life.
A connected city: world class infrastructure and connectivity to drive growth	Affordable social housing plays an important part in ensuring that there are neighbourhoods where people will choose to live, and their housing needs and aspirations are met.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

Housing Revenue Account Budget 2021/22 to 2023/24 – Executive 17 February 2021

1.0 Introduction

- 1.1 The purpose of this report is to update members on the HRA business plan and highlight areas that will need to be considered as part of the budget process. It sets out the latest current years forecast position and includes an update on the savings that were forecast to be achieved following the insourcing of Northwards.
- 1.2 The report also sets out the progress on the transition of the ALMO into Manchester City Council (MCC), including an update on the TUPE process and the new governance arrangements with local members, residents, and council officers.
- 1.3 Following the insourcing of Northwards Housing and in the context of the government's social housing white paper, the emerging building safety regulations, and the drive to zero carbon, the council is actively reviewing its social housing strategy. This, in turn, will impact the longer term HRA business plan, as we consult more broadly with social housing residents over 2022/23.
- 1.4 The HRA budget focuses on three main areas of activity:
 - Repairing, maintaining and improving existing stock and progressing zero carbon /retrofit.
 - Providing services for council tenants and leaseholders; and
 - Continuation of provision of new affordable homes programme to maintain existing levels of stock.
- 1.5 In addition, it sets out the associated factors that need to be considered as part of the HRA business planning to effectively contribute towards achieving the housing strategy objectives.

2.0 Background

- 2.1 The use of the HRA is governed by statute. It is a ringfenced account used solely to record the income and expenditure incurred on managing and maintaining the councils own housing stock and closely related services or facilities, which are primarily for the benefit of the council's own tenants. The main features of the HRA are:
 - It is a landlord account, recording expenditure and income arising from providing housing accommodation by local housing authorities.
 - It is not a separate fund but a ringfenced account of certain defined transactions, relating to local authority housing.
 - The main items of expenditure included in the account are management and maintenance costs, capital investment funding, borrowing costs, Private Finance Initiative (PFI) charges and depreciation.
 - The main income sources are from tenants' rents, and PFI funding.

- 2.2 Until 2012 the HRA was managed on a national subsidy system whereby authorities that were deemed to have surplus HRA income paid into the system, and these resources were redistributed to authorities whose income was deemed not to be enough. The distribution was based on a formula and did not provide for any long-term planning by authorities and was unsustainable in the longer term.
- 2.3 The subsidy system was replaced by the Self-Financing regime in April 2012. The key changes were that the Council must manage its housing stock on a similar basis to Registered Providers, this included retaining all the tenants' rents, but having to fund all associated costs including both in year operating costs and longer-term investment needs. A condition of the changes was that authorities are required to develop a rolling 30-year business plan to demonstrate long term sustainability and reviewing the use of existing assets to ensure that benefits are maximised.
- 2.4 In developing the 30-year business plan it is essential that the Council considers all risks and ensures that any investment decisions are affordable both in the short and longer term. There is also a statutory requirement to ensure the HRA remains in balance over the 30-year period.
- 2.5 Prior to the implementation of Self Financing, the HRA was sustainable over the long term. Since 2012 there have been government-imposed policy changes that have affected the HRA budget, most notably the imposition of a 1% annual rent cut for four years from 1st April 2016. The annual 1% reduction for 4 years had a cumulative effect of a c£300m reduction in rental income over the life of the business plan compared with the initial business plan.
- 2.6 The self-financing regime also saw the removal of the borrowing cap in the HRA which in theory enabled significant further borrowing. In reality this is constrained by the affordability of servicing and repaying the debt within the business plan and provides limited additional capacity for new capital funding. Currently the servicing of the debts is covered within the business plan through rental income and the use of reserves. The use of all resources linked to the HRA, including the use of RTB receipts is being considered and a further paper on the capacity for further investment and recommendations on how this should be targeted will be prepared as part of the budget process.
- 2.7 The required four-year rent reductions has necessitated the need to identify further efficiencies. The 2021/22 business plan developed the efficiencies in operating costs to allow the continuation of investment in the stock and improve the quality of tenant's homes and ensure the long-term sustainability of the HRA. Officers have already started on this work and details of areas under review is set out below.
- 2.8 Members will recall that in 2019 there was an options review into the management of the Northwards HRA stock. As a result of this review, in January 2021, tenants voted to bring Northwards Housings back in house. The benefits of bringing Northwards back in-house included improvements to

services for tenants and providing financial efficiencies of c£77m over the 30-year business period.

- 2.9 As part of the in-sourcing programme a transitions budget of £2.7m approved to fund the change management, legal costs associated with TUPE and the closure of the company, staff and pension arrangements and other liabilities including the surrender of leases on operational buildings.
- 2.10 Efficiencies of £2.4m per annum were to be achieved through a combination of operational savings through changes to the ways of working and reduced duplication in senior management and accommodation costs. These measures will ensure a balanced budget for housing operations within the HRA and stop the previous reliance on reserves to support the revenue position each year. To assist with the implementation period, the forecast savings have not been assumed in the HRA budgets until 2022/23.
- 2.11 Progress to date has been positive and has already realised full year savings of £1.3m through a combination of reduced accommodation costs through the planned exit of Hexagon Tower in December 2021 and staff savings through integrating teams within the City Council and reducing senior management costs.
- 2.12 Work is underway to further integrate the professional disciplines and improve the planning and delivery of the capital programme within the City Council's capital programme team. This is expected to deliver the balance of the savings
- 2.13 This integration will deliver the longer-term capital programme through the simplification of the management arrangements and improving value for money through integration of the wider Council capital delivery and efficiencies in process, procurement, and design. The programme will continue with the strategic objectives of maintaining the Decent Homes standard, building and fire safety and achieving the zero-carbon target for the stock through retrofit to reduce carbon emissions and improve energy efficiency for tenants.
- 2.14 The existing capital programme includes capital investment in excess of £87m over the three years 2021/22 -2023/24 and beyond 2024/25 an annual investment budget of c£25m per annum uplifted by CPI has been assumed in the business plan. The capacity for investment is being relooked at as part of the business plan review. Whilst this does allow for some investment in schemes that support the carbon agenda it does not allow for any costs to fund carbon reduction retrofitting of stock to achieve zero carbon; initial estimates are that this will cost c£25k per property which is unaffordable within the business plan and will only be possible if significant external grant funding is made available. Some energy efficiency grant funding is available, but this is constrained because funding support is targeted at properties not yet at EPC C, and the majority of the HRA stock is already at that standard or below.
- 2.15 In addition to the ongoing investment in existing stock, officers are looking at options around increasing the volume of social housing within the city, this

includes looking at different delivery models and potential opportunities for funding new social housing. As well as helping to offset the loss of stock through the right to buy scheme it will help improve the overall condition of existing stock and help contribute towards the reduced carbon targets through new design and building techniques.

2.16 Despite all the ongoing work, the HRA business plan does remain under pressure and the 2022/23 budget will include an updated plan for future years. The HRA business plan is formulated on several assumptions that determine the forecast HRA income and expenditure, and some of the key assumptions that will need to be agreed include: -

- Annual rent increase formula CPI +1%.
- The level of bad debts – currently 1.5% 21/22 increasing by 0.5% to 2.5% in 23/24.
- Implications of inflation – currently linked to CPI.
- Right to buys forecast to be 1.25% of existing stock per annum.

Annual rents

2.17 The government guidance allows authorities to increase rents by a maximum of CPI plus 1% up until 2024/24, and beyond that the business plan currently assumes CPI at 2%. For the purposes of rent calculations CPI is based on September figures, and the Office for National Statistics September CPI figure was 3.1%. If the Government guidance is to be followed this will require an average annual rent increase of 4.1%, and the average weekly rent increase will be £3.16 (52 weeks).

2.18 Given the current economic climate, and other household pressures it is proposed that a further paper will be drafted for Member's consideration setting out options around rent increases for 2022/23, together with the implications on the HRA as part of those options. The final 2022/23 rent proposals will be considered as part of the 2022/23 budget setting process.

2.19 Good progress has been made on delivering the planned efficiencies through bringing Northwards back in house. The delays in the delivery of the capital programme over the past few financial years means that the HRA reserves are higher than usual. This provides for some limited capacity for investment, but there will still be significant pressures on the HRA, and it will not deliver all of the Council's ambitions in relation to maintaining, retrofitting and retaining the level of social housing stock without access to external funding.

2.20 It is worth noting that small changes in assumptions have a material impact on the overall business plan position, as demonstrated by the 4 years of rent reductions resulting in lost income of £300m over the 30 years of the business plan. Conversely, a 1% increase in CPI is worth c£29m increased rental income over the 30-year period and highlights the need to review and refresh the assumptions in the plan each year.

2.21 A more detailed paper will be developed as part of the budget process that updates on the interlinked areas of the capital programme priorities, capacity to invest, the 30-year business plan position and recommendations for the annual rent increase.

Northwards Transition Update

2.22 This section of the report focuses at a high level on the progress of the transition of Northwards into MCC, with a specific focus on governance and workforce.

2.23 The Executive agreed in January 2021, following a residents' test of opinion on the council's proposals, to bring back Northwards under council control. As highlighted in the report, the main aspects of the decision centred on

- The considerable change in the social housing regulatory landscape, post Grenfell and the financial impact of the four-year rent reduction cap on the shaping and delivery of services.
- The profound impact of Covid-19 on public service delivery, which has led to a major rethink of how local services are and can be delivered.
- Although Northwards, initially met its key priority in achieving the Decent Homes standard and funding, 15 years on from its creation Northwards' performance, operating costs and governance were not at expected levels.
- The opportunity to improve services to residents through closer working with the council in local neighbourhoods, as well as on the Zero Carbon agenda.

2.24 Following the decision to bring Northwards in house, the Senior Management Team have overseen the transition from ALMO to MCC through the council's Future Shape programme, which focussed on multiple areas, however, the clear priority was to ensure that residents continued to receive a seamless housing service during the period of the transition and that, similarly, any disruption to staff was minimal, during this period of change.

2.25 Central to the smooth transition was a carefully managed project plan, overseen by the council's ALMO Project Board and the Northwards' Transition Board. The remit of these boards was to work collaboratively to oversee these deliverables, as well as the ICT (Information & Communication Technology) (Information & Communication Technology), Legal, HR, Property and Finance activity that underpinned the transition. The HR element, as requested by members, is set out in more detail in point 2.28, whilst the table below sets out the key activity of the transition plan.

HR & TUPE	See 2.28
Governance & Legal	<ul style="list-style-type: none"> • Establishment of Northwards Shadow Board • Filing Northwards Statutory 2020/21 Accounts • Transfer of contracts from NW to MCC • Award and early mobilisation of Equans contract which provides the repairs and maintenance service to Northwards' residents.
ICT	<ul style="list-style-type: none"> • Successful transfer of Northwards to MCC which is ongoing but includes access to SAP (Finance and HR)
Services	<ul style="list-style-type: none"> • Establishment of YES Manchester as an independent charity supporting North Manchester communities into work, developing personal and professional skills, as well as a money advice service.
Finance	<ul style="list-style-type: none"> • Financial Management processes transferred from NW to MCC • Suppliers transferred from NW to MCC
Communication	<ul style="list-style-type: none"> • Extensive staff and resident communication and engagement pre and post transition
Accommodation	<ul style="list-style-type: none"> • Agreement to exit Hexagon Tower in Sep 2021

2.26 From a service delivery perspective, the transition of the ALMO to MCC, which went live on 5th July 2021, went smoothly with continuity of all resident services across all areas of, what is now Northwards Housing Operations, maintained prior, during and post the transfer to the council.

2.27 Leading on from the transition plan, the council developed a 100-day plan which was specifically focussed on the first 100 days from 5th July 2021 to 13th October 2021 when Northwards re-joined the council and overseen by the Strategic Director of Neighbourhoods, supported by the Deputy Chief Executive & City Treasurer, Director of Human Resources & Organisation Development and Director of Inclusive Growth.

The 100-day plan focussed on four themes, which are set out in the table below but focus on the short-term activity post-transition as well as developing the longer-term strategic direction for the new Northwards Housing Operations service.

Commercial	<ul style="list-style-type: none"> • HRA Business Plan • Equans Mobilisation
Customers	<ul style="list-style-type: none"> • Resident Charter & Engagement • Social Housing White Paper Commitments
Colleagues	<ul style="list-style-type: none"> • Leadership & Values • Systems Integrations
Collaboration	<ul style="list-style-type: none"> • Governance • Partner and Stakeholder Working

Highlights of the 100-day plan include:

- The successful mobilisation of the Equans contract for repairs and maintenance of Northwards stock.
- The commencement of the resident engagement activity on the new resident charter.
- The recruitment to the new Northwards Housing Operations leadership team.
- The development of the new governance arrangements.

As requested by members, the governance aspect of the 100-day plan is set out in more detail in point 2.38.

Northwards-Housing Operations HR Update

- 2.28 In relation to the TUPE of Northwards ALMO staff to MCC, this took place successfully on 5th July 2021.
- 2.29 The transfer was governed by the Transfer of Undertakings, Protection of Employment (TUPE) Regulations 2006, which stipulate that all terms and conditions of employment (apart from existing pension rights) in force immediately prior to the transfer, are protected as is continuity of employment with Northwards Housing.
- 2.30 As part of the consultation that has taken place relating to the transfer, several 'measures' were set out that were effective from the date of transfer. Our main principle in determining these 'measures' was to maintain all contractual terms and conditions of service where possible unless there was an overriding reason this could not be accommodated for business and administrative purposes.
- 2.31 These 'measures' were around parking and travel, mobile phones, early finishing before Christmas and removing a birthday day of paid leave.
- 2.32 All staff received a service specific induction from their receiving managers, as well as a corporate induction after 5th July 2021. This includes a Listening in Action event and a session on the 'Our Manchester' experience.
- 2.33 All Senior Managers received an invitation to the City Council's Senior Leadership Group meetings.

Governance Update

- 2.34 Following the transition to MCC, new governance arrangements are being established with the Executive Member for Neighbourhoods, North Manchester Councillors, local residents and the leadership of Northwards Housing Operations.
- 2.35 The Board, chaired by the Executive Member of Neighbourhoods, will be responsible for overseeing the delivery of housing services to the Council's housing stock; primarily in, but not limited to, North Manchester. This includes

the monitoring of the performance of all housing functions and the engagement of residents in the effective delivery of services

- 2.36 The Board will be a committee under the Local Government Act 1972 and will be subject to the Council's Procedure Rules and the Access to Information Procedure Rules. The Board will be a standard (non-area) advisory committee and therefore subject to political balance rules.
- 2.37 As an advisory committee the Board has no decision-making powers of its own but may make recommendations to the Council or the Council's Executive on matters relating to the discharge of their housing functions, insofar as those functions relate to the Council's housing stock.
- 2.38 The Board will be composed of six elected councillors and five co-opted residents from the Council's housing stock. Residents will be appointed to the Board by the Council. Elections will be used to decide which nominees are put forward to the Council for consideration.
- 2.39 Although a non-decision-making board, an essential element of the new social housing white paper and Our Manchester values is the importance of working, collaboratively with local communities in shaping local services, which is at the heart of the new governance arrangements.
- 2.40 It is vital that the Council puts in place the appropriate arrangements to ensure that there is excellent governance in place, with an enhanced focus on performance, resident satisfaction, and local accountability.
- 2.41 Following the endorsement of the proposed governance by the Northwards Shadow Board, the council is in the process of recruiting to the new arrangements, with a focus on attracting a diverse range of candidates to reflect the broad make up of North Manchester communities. Once recruitment to the new arrangements is finalised a separate report will need to go to Council so the committee can be formally set up.