

DRAFT HOUSING REVENUE ACCOUNT BUDGET UPDATE 2022-23

Executive Summary

This report represents an interim stage of the Business Planning process of the Council.

Following the end of the rent reduction period in April 2020 social housing rents are now increased by CPI + 1%. The budgeted rents have been prepared on this basis and rents have been increased by 4.1% (September CPI of 3.1% plus 1%).

On 13 February 2020 Council approved the full Sheerwater Regeneration Scheme under which the HRA will lose the rental income from the dwellings within the regeneration red line. As discussed later in the report, many dwellings within the Regeneration Red Line are now being held as vacant if they become void. This is necessary to minimise moving tenants and will allow the regeneration to be carried out efficiently. However the HRA is foregoing the rental income from these dwellings and the financial implications arising from the Regeneration continue to create an HRA deficit which will be funded by a transfer from reserves in 2022/23.

The working balance per property is forecast to be £100 at 31 March 2022. £100-£150 balance per property is considered to be necessary for prudent financial management.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) the draft Housing Revenue Account budgets for 2022/23, as set out in Appendix 1 to the report, be agreed; and
- (ii) Managers, Corporate Leadership Team and Portfolio Holders continue detailed budget preparation for consideration by the Executive in February 2022.

Reasons for Decision

Reason: Consideration of these proposals will enable the preparation of the Council's Housing Revenue Account budgets for 2022/23 to proceed.

The Executive has the authority to determine the recommendation(s) set out above.

Draft Housing Revenue Account Budget Update 2022-23

Background Papers: None.

Reporting Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Contact Person: Prabha Parameswar, Business Support Manager
Email: prabha.parameswar@woking.gov.uk, Extn: 3248

Portfolio Holder: Councillor Simon Ashall
Email: cllrsimon.ashall@wok.gov.uk

Shadow Portfolio Holder: Councillor Ian Johnson
Email: cllrian.johnson@woking.gov.uk

Date Published: 12 November 2021

Draft Housing Revenue Account Budget Update 2022-23

1.0 Introduction

- 1.1 This paper sets out the Council's draft Housing Revenue Account (HRA) budgets (Appendix 1) for 2022/23.
- 1.2 Detailed explanations of the changes and pressures within the different elements of the budget are set out in the sections below. The HRA is forecast to make an estimated deficit of £558,607 with a £556,465 contribution from reserves being required to maintain a working balance per property of £100. A range of £100 to £150 per property is considered prudent.

2.0 Forecast Outturn

- 2.1 Adjustments to the revised estimates for 2021/22 have been made to reflect variations identified during the year to date.
- 2.2 The collection rate is up significantly on the same period last year, but still down on pre-pandemic levels, due to many tenants struggling with the financial impact of Covid-19. Work continues in 2021/22 to ensure that those tenants receive advice and support in accessing Universal Credit. It is worth noting that with the embargoes on taking recovery action during 2020/21, the courts have a considerable backlog and have prioritised the most serious cases (i.e. significant ASB, substantial rent arrears of more than 1 year, etc.). Rental income is also affected by void properties within the Red Line of the Sheerwater Regeneration awaiting redevelopment.
- 2.3 The overall arrears position for the HRA has remained fairly static and currently sits at approx. £797k.
- 2.4 The New Vision Homes contract will end on 31/03/2022. On 11th February 2021, Council resolved to bring the New Vision Homes contract services in house at the end of the contract term. As part of this process, the New Vision Homes contract will need to be Final Accounted. As there is no provision within the contract for interim final accounts, this will mean a Final Account for a 10 year ongoing project. Due to the varied nature of the contract and the 10 year term, there is uncertainty around the level of the Final Account payment. It is anticipated that the Final Account process will take from April to August 2022.

3.0 Approach to Budget Setting 2022/23

Assumptions

- 3.1 The draft budgets in this paper should be considered alongside the draft Investment Programme report elsewhere on the agenda which will influence the overall budget position.

Management and Administration

- 3.2 Salary and other central costs have been allocated to the HRA in accordance with normal accounting rules to show the full cost of the service. The budgets are set and monitored in a pre-allocated format to make it possible to see the overall impact rather than just a proportion of the overall cost/variance which may be allocated to an individual service. This allocation will be reviewed for the final budget to ensure the apportionment reflects the current structure.
- 3.3 Under the NVH insource, a significant amount of staff will be brought in to the Council. The above review will therefore need to consider changes in the allocation of costs between the HRA and General Fund to allow for additional costs to accommodate and support these new posts.

4.0 Rents and Other Charges

- 4.1 On the 4th October 2017, the Department for Communities and Local Government (DCLG) and the Prime Minister's Office, announced that social housing rents will be increased by Consumer Price Index (CPI) plus 1% for 5 years from 2020 ending the four year rent reduction period. A rent increase of 4.1% (September CPI of 3.1% plus 1%) has been incorporated into the draft estimates.

Recovery of Charges

- 4.2 Service charges, including energy charges, are based on the cost of the service being provided. The Chief Finance Officer has delegated authority to vary service charges in line with external factors.
- 4.3 Energy charges are levied on a per block basis based on cost. This allows energy costs to be recharged to tenants on a more detailed basis. An energy charge review was carried out in 2021/22 and the Draft Budget incorporates the amended charges.
- 4.4 Housing related Support charges were reviewed and the new charges introduced from April 2020. Up to 31st March 2018 Surrey County Council fully subsidised the Housing Related Support charges for council tenants in receipt of a means tested benefit. This £130,000 funding ceased in 2017/18. However under the new arrangements many tenants in receipt of means tested benefit continue to receive the service free of charge.
- 4.5 Hale End Court (a new sheltered scheme) was opened in October 2021. All service charges pertaining to Hale End Court are recoverable.

Implementation Date

- 4.6 The new rents will be applied from the first Monday in April (i.e. 4 April 2022).
- 4.7 Service charges are usually increased from August each year. However several new contractual changes will take place from April 2022 due to the insourcing of the NVH contract. Officers are reviewing whether the new service charges should be applied from 4 April 2022 (in line with the new contractual arrangements) or from 1 August 2022.

5.0 Prudential Borrowing

- 5.1 The HRA requires certainty and accuracy of costs wherever possible especially following government policy changes, rent reductions, and the impact of the Sheerwater regeneration project. HRA interest charges for pre 2016/17 borrowing are fixed at the Council's average borrowing rate at 31 March 2016. HRA borrowing from April 2017 onwards are charged at the annual average 50 year PWLB borrowing rate. This ensures that General Fund investment decisions made by the Council do not impact the HRA.
- 5.2 The updated forecast for HRA interest costs are £5,384,296 in 2021/22 and £5,493,662 in 2022/23. These costs include the borrowing taken on to fund the new build development schemes detailed in the Housing Investment Programme elsewhere on the agenda. £9,737,368 additional borrowing is forecast over 2021/22 and 2022/23.
- 5.3 The 2021/22 Draft Budget makes no allowance for repayment of the debt taken on for Self Financing or for the repayment of the borrowing relating to the new build developments. The borrowing relates to long life assets which are fully maintained.

6.0 Robustness of the Budget and Risks

- 6.1 It is important to consider the robustness of the budget and the adequacy of reserves for the purpose of maintaining the financial health of the Housing Revenue Account. The key risks are set out in the following paragraphs.

Covid Crisis

- 6.2 The Covid Crisis has had a significant impact on HRA rent collection as tenants were faced with financial hardship. The collection rates have stabilised, but are still down on pre-pandemic levels, due to many tenants struggling with the financial impact of Covid-19 and due to a back log in the courts. An additional £200,000 bad debt provision was included in the 2021/22 budget to allow for under recovery of rents due to Covid. This specific provision has been removed in 2022/23 but Officers will need to review recovery rates for the final budget to ensure the remaining bad debt provision is sufficient. The number of tenants in receipt of Universal Credit continues to grow which is an additional challenge to rent collection due to the way the Universal Credit is paid (monthly in arrears).

HRA New Build Developments

- 6.3 As detailed in the Affordable Housing Expenditure Update report, which went to the October 2018 Executive, Officers have reviewed the land assets held by the authority, and other potential development sites around the Borough, to identify suitable new build affordable housing sites in order to utilise retained one for one receipts and increase the local affordable housing supply.
- 6.4 The Draft Housing Investment Programme Report elsewhere on the agenda lists these new build development schemes. The Draft Budget has been prepared on the basis that the Corner of Rydens\Sundridge Road project will complete in 2021/22 and Bonsey Lane in 2023/24. Old Woking Independent Living (Hale End Court) is completed.
- 6.5 Historically HRA dwellings have been let at Social rent levels. Social rents are calculated using a prescribed complex formula which takes 70% of the national average rent and adjusts it based on how the property value and local earnings (using the relative county earnings) compare to the national average. Both the property value and relative county earnings are at 1999 levels and the outcome can only be adjusted by 5 or 10%. This formula is applied nationally and makes no further allowance for local circumstances. Therefore there is little flexibility within this formula to set a rent which is suitable for the relevant part of the borough, suitable for the type of accommodation, and ensures the financial sustainability of the HRA and affordability to tenants.
- 6.6 The additional rental income generated by the new build units is unlikely to cover the management, maintenance, and interest costs attributable to the new build dwellings. The net cost of these developments will therefore be subsidised by HRA surpluses. New build rents will be reviewed upon completion to ensure they are set at a level which guarantees the schemes are affordable. Under the Kingsmoor Park Development, a level of social rent which is suitable for Woking was determined. Where possible the new units will be let at or just below Kingsmoor Park rent levels (which are shown below) and capped at a LHA levels. To enable this new build units will be grouped into an Affordable (up to 80% of market rents inclusive of service charge) Rent Category within the HRA. This will provide flexibility to set suitable rents. However it may not be possible to charge higher rents for New Builds which have been part funded by Homes England grant (due to the grant conditions restricting the level of rent which can be charged).

Draft Housing Revenue Account Budget Update 2022-23

6.7 The 2021/22 Kingsmoor Park rent levels are:-

2021/22 Kingsmoor Park Rents	
Unit Type	£
Rents £ pw	
1 bed flat	£130
2 bed flat	£148
2 bed house	£159
3 bed house	£183
4 bed house	£193

Retained One for One Replacement Receipts

- 6.8 Local Authorities can retain an element of Right to Buy receipts locally to be used on one for one replacement housing. These receipts can currently be used to fund up to 40% of the cost of the replacement housing and must be used within 5 years or passed to the Government with interest charged at 4% above the base rate.
- 6.9 The HRA developments detailed in the Housing Investment Programme will utilise all of the existing retained one for one receipts balance and there is a risk the HRA will not be able to build up enough receipts to fully finance 40% of the scheduled developments at the time of construction. If there is a short fall in retained receipts the HRA will have to borrow to fund 100% of the development until sufficient receipts have been received.

Repairs, Maintenance, and Management & Contractual Inflation and Impact of NVH Insourcing

- 6.10 The services currently provided by New Vision Homes (NVH) will be brought in house from 1st April 2022. Various pricing mechanisms are used under the contract most of which are based on the original tender submitted 10 years ago. The HRA will still need to contract for certain services such as responsive repairs (although more of the management of the service will be with Council Officers). The prices available in the current markets may be significantly different to those charged under the existing contract. Therefore it is likely that some services will provide a saving under the new arrangements while other services will be procured at a higher cost.
- 6.11 The overall effect of the insource on the draft budget is currently assumed to be a net increase of £200,000. Within this, an additional £250,000 for HRA overheads and support costs has been assumed (in addition to direct salary costs). This is considered prudent for financial planning at this stage and the position will be amended for the final budget as the results of the tender exercises become clearer.
- 6.12 Other cost pressures include cleaning costs, caretaking costs and energy costs because of the increased charges and inflation.

Major Repairs Contribution

- 6.13 As per the 1 April 2017 Item 8 Determination, depreciation is to be charged to the HRA with effect from 1st April 2017 in accordance with proper accounting practices. The depreciation replaces the Major Repairs Contribution and is transferred to the Major Repairs Reserve to be used on capital works to the stock or repaying debt. HRA depreciation is calculated by dividing the total asset value of Council Dwellings by their average useful economic life. Based on the 31st March 2021 asset value the depreciation amount is estimated to be £3,956,449 in 2022/23.

Draft Housing Revenue Account Budget Update 2022-23

Sheerwater Regeneration

- 6.14 On the 5th April 2018 Council authorised a loan facility of £26m, on terms previously approved by Council, to enable Thamesway Developments Limited (TDL) to implement the approved Leisure and Recreational facilities as a first stage of the full regeneration of Sheerwater. On the 4 April 2019 the Council approved a further short-term loan facility of £42m to TDL, on terms previously approved, to enable the first residential phase (Purple).
- 6.15 In February 2020 the full Sheerwater scheme and financing facilities were approved by Council. The Council approved use of Compulsory Purchase Order powers for the regeneration in July 2020. The leisure facilities under the scheme have been opened and progress is being made on the early construction phases.
- 6.16 Under the Sheerwater Regeneration approximately 426 HRA dwellings will be demolished. The vacant land will be transferred to Thamesway Developments Ltd and the replacement affordable housing dwellings transferred to Thamesway Housing Ltd. The HRA will therefore lose the rental income from these 426 dwellings. This places pressure on the HRA and an annual transfer from reserves is forecast to be required in order to sustain the HRA in the earlier years of the regeneration. The financial impact of the regeneration is already significant as dwellings which become void within the red line are being held as vacant. The HRA therefore loses the rental income from these dwellings but there is no offsetting saving.
- 6.17 Currently there are 185 void HRA dwellings within the red line. As the phasing of the project is finalised some of these units will be re-let as temporary accommodation. However it is likely any re-letting of properties will be offset by new voids in areas which are in the earlier phases on the scheme. The 2022-23 budget assumes that any dwellings currently void will not be re-let in future. It also assumes that there will be no income from dwellings due to be demolished within the first 36 months of the regeneration project. This will increase if more properties within the red line become void and are not offset by additional re-lets.
- 6.18 The financing of the Sheerwater Regeneration Project allows for a capital receipt to be made from the Project to the HRA to compensate it for the historic HRA debt relating to the demolished dwellings. However the timing will depend on the financial position of both the project and the HRA which will need to be reviewed over the course of the project.

Reserves and Balances

- 6.19 The total contribution to the Asset Management Programme is £3,956,449 in 2022-23.
- 6.20 The balance on the HIP Reserve is £4,201,473 as at 31 March 2021. It is likely that the remaining balance will need to be ring-fenced to be used to maintain an HRA Surplus during the construction phase of the Sheerwater Regeneration and to offset the rental income lost due to the Covid Crisis.

7.0 Conclusion

- 7.1 The 4 year rent reduction period had a significant impact on the financial position of the HRA. While the return to rent increases of CPI + 1% is welcomed the rental income over the HRA 30 Year Business Plan will be considerably less than that calculated under Self-financing.
- 7.2 The regeneration of Sheerwater has started meaning the HRA will forego the rental income on void and demolished dwellings within the red line. As detailed in the report it is estimated that the HRA will use reserves of £556,465 to maintain the working balance per property of £100 in 2022/23.

8.0 Corporate Strategy

8.1 The report sets out the draft budgets for managing and maintaining the Council's housing stock during 2022/23. Provision of housing is a key priority within the Council's Corporate Plan.

9.0 Implications

Finance and Risk

9.1 The financial implications are explicit in the report.

9.2 Risks to budgets have been identified throughout the year and will be reported in the Performance and Financial Monitoring Information booklet (the "Green Book"). Specific risks have been set out in the report.

Equalities and Human Resources

9.3 No equalities implications noted.

9.4 There are no additional human resources or training and development implications arising as a direct result of this report.

Legal

9.5 None identified at this time.

10.0 Engagement and Consultation

10.1 No public consultations have been undertaken in preparing this report.

REPORT ENDS