DRAFT HOUSING REVENUE ACCOUNT BUDGET UPDATE 2023-24

Executive Summary

Housing Services were brought back in-house on 1 April 2022. This report represents an interim stage of the Housing Revenue Account (HRA) Business Planning process of the Council.

In 2019, the government set a rent policy for social housing that would permit rents to increase by up to CPI plus 1 percentage point ('CPI+1%') per annum and made clear its intention to leave this policy in place until 2025. CPI was 10.1% in September 2022. This would permit social housing rent increases from 1 April 2023 to 31 March 2024 of 11.1%. This much higher than expected rate of inflation is already placing considerable pressure on many households. In the face of these exceptional challenges, Department for Levelling Up, Housing & Communities (DLUHC) consulted on a temporary amendment to the CPI+1% policy next year to impose a ceiling on rent increases . The draft direction is based on setting the ceiling at 5%. However, within this consultation, the Government sought views on 3%, 5% and 7% as ceiling options.
(Source:- Social housing rents - GOV.UK (www.gov.uk))

As a prudent measure, the budgeted rents have been prepared on this basis and rents have been increased by 5%.

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 as 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 whilst still incurring costs and the financial implications arising from the Regeneration continue to create an HRA deficit which will be funded by a transfer from reserves in 2023/24.

The Housing Revenue Account (HRA) is forecast to be significantly impacted by rising costs from energy (net £1.3 million pressure) and contractual inflation (c.£500k), which will not be adequately matched by increased rental income (due to the proposed Government rent cap). The HRA was already facing considerable financial challenges as a result of losing homes and associated rental income to the Sheerwater regeneration project and the legacy impact of 4 years' of rent cuts.

Whilst current forecasts indicate that the Council can set a balanced budget for 2023/24, it is marginal and not sustainable beyond this period. A number of urgent actions will need to be taken over the coming months, including:

- Looking at the inter-relationship between the HRA and Sheerwater financial model
- Considering further efficiency savings for the HRA, noting the service is already lean
- Reviewing the allocation of corporate recharges to the HRA
- Exploring revised service offer to residents
- Approaching the Government with the Council's concerns around the ongoing sustainability of the HRA

Recommendations

The Executive is requested to:

RESOLVE That

(i) the draft Housing Revenue Account budgets for 2023/24, 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 2023.

Reasons for Decision

Reason: Consideration of these proposals will enable the preparation of the Council's Housing Revenue Account budgets for 2023/24 to proceed.

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

Background Papers: None.

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1.0 Introduction

1.1 This paper sets out the Council's draft Housing Revenue Account (HRA) budgets (Appendix 1) for 2023/24.

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 £1,823,094 with a £1,700,000 contribution from reserves being required to maintain a working balance per property of £63. A range of £100 to £150 per property is considered prudent.

2.0 Forecast Outturn

2.1 Adjustments to the revised estimates for 2022/23 have been made to reflect variations identified during the year to date.

2.2 The income collection figure for the HRA is around 1.5% down on last year at this same point in the financial year. In addition, the arrears rate is also slowly increasing. If the income collection continues at this rate, the arrears could increase to around 5.7% with the total arrears value increasing by approximately £290k over the whole financial year to £1.08m. All debts that are over 6 years old will be reviewed during the coming months to ensure that these are being written off where they are now statute barred. The overall arrears position for the HRA has remained static and currently sits at approximately £797k.

2.3 The income team have experienced several issues with delays in Universal Credit (UC) arrears payments and verification of UC payments following the annual rent increases effective from the beginning of April. The tenancy management team have also had resource issues with several staff leaving in the past 6 months and this has had a knock-on effect to the income team as they have had to deal with an increase in general enquiries that would normally have been dealt with by the Customer Service team or Housing Managers. Cost of living is likely to add further pressures to arrears as more tenants struggle to pay bills.

2.4 The New Vision Homes contract ended on 31 March 2022 and the Housing Services were brought in-house. The new team Housing Landlord Services is now in place in the Council.

3.0 Approach to Budget Setting 2023/24

<u>Assumptions</u>

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.

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. Inflation in staff costs have not been considered while setting these budgets, but they are likely to be offset by the capitalisation of some staff posts to the Asset Management Plan.

4.0 Rents and Other Charges

4.1 The current CPI+1% limit on annual rent increases is expected to be subject to a Government imposed ceiling from 1 April 2023 to 31 March 2024. DLUHC's draft direction is based on setting the ceiling at 5%. The budgeted rents have been prepared on this basis and rents have been increased by 5%.

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. Some properties are on a fixed price contract until October 2023, after which, energy costs are expected to increase. However, the income recovery may be restricted to be in line with the wholesale price cap currently being applied by the Government. This poses a potential risk of under-recovery of energy charges.

4.4 An energy charge review will be carried out in January 2023 to incorporate the amended charges.

4.5 Housing related support charges were reviewed. 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 funding ceased in 2017-18. From 1st April 2023, these will be considered as tenancy support charges (reflecting the work now undertaken by the Independent Support team) and will be eligible for Housing Benefit /Universal Credit. Careline charges have had the uplift applied in line with the Fees and Charges report. It is no longer intended to apply any subsidy from the HRA towards any of these charges from 1st April 2023. Tenants will however receive HB where applicable. This should bring savings to the HRA of approximately £184,000.

Implementation Date

4.6 The new rents will be applied from the first Monday in April (i.e. 3 April 2023).

4.7 Service charges are usually increased from August each year. However, several new contractual changes will take place from April 2023. Officers are reviewing whether the new service charges should be applied from 4 April 2023 (in line with the new contractual arrangements) or from 1 August 2023.

5.0 Prudential Borrowing

5.1 The HRA requires certainty and accuracy of costs wherever possible especially following government policy changes, rent reductions/caps, 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 on 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 £5,498,195 in 2022/23 and £5,463,712 in 2023/24. It is assumed that future acquisitions and new developments of HRA homes will be funded from capital receipts associated with Sheerwater land transfers as opposed to additional borrowing.

5.3 The 2023/24 Draft Budget makes no allowance for repayment of the debt taken on for Self-Financing or for the repayment of the borrowing relating to new build developments completed up to 2022/23. 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.

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. 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). Cost of living pressure is likely to add further risks to the HRA rent collection.

HRA New Build Developments

6.3 The Draft Housing Investment Programme Report elsewhere on the agenda lists new build development schemes. The Draft Budget has been prepared on the basis that the Corner of Rydens\Sundridge Road project will complete in 2022/23 and Bonsey Lane in late 2023/24. Old Woking Independent Living (Hale End Court) is completed.

6.4 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.

6.5 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 at social rent level. The net cost of these developments will therefore need to be subsidised by HRA surpluses and/or grants. For future new builds, officers will consider charging higher Affordable Rents (up to 80% of market rates).

Retained One for One Replacement Receipts

6.6 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.

6.7 The HRA developments and acquisitions 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 and Contractual Inflation

6.8 Housing Services were brought in house from 1 April 2022. The HRA contractual costs, such as responsive repairs, will increase by CPI. However, rental income is likely to be capped at 5%. Therefore, it is likely that the Council face a potential deficit in terms of paying higher for the costs and not recovering the same. In addition, it is unlikely the Council will be able to recover the full extent of energy cost increases.

6.9 A major cost pressure is seen on account of the increasing energy prices, which is anticipated to add a net cost pressure of £1.3 million to the HRA in 2023/24. The district heating costs have not changed to date, but are expected to increase significantly when the current energy contract is renewed in October 2023. The cost of communal electricity has seen the largest increase, rising from approximately 16p per Kwh to 89p per Kwh.

6.10 The recovery of these charges have been assumed at the wholesale price cap in order to manage the increase incurred by tenants. However, this creates a deficit to the HRA if the wholesale cap ends in March 2023. Officers will continue to monitor Government proposals around energy costs with more detail expected in early 2023.

Major Repairs Contribution

6.11 As per the 1 April 2017 Item 8 Determination, depreciation is to be charged to the HRA with effect from 1 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 31 March 2021 asset value, the depreciation amount is estimated to be £3,956,449 in 2023/24. The depreciation will fund the Annual Maintenance Plan to for 2023-24, including capitalised staff costs.

Sheerwater Regeneration

6.12 Under the Sheerwater Regeneration project, approximately 426 HRA dwellings will be demolished. The vacant land will be transferred to Thameswey Developments Ltd and the replacement affordable housing dwellings transferred to Thameswey 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.

6.13 Currently there are 361 void HRA dwellings within the red line. It is assumed that there will be a further 50% reduction in occupied homes (and therefore rental income) within the Sheerwater red line for the 2023/24 budget.

6.14 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 as land is transferred to Thameswey. These capital receipts will assist with funding new acquisitions and developments identified in the Investment Programme without the need for additional HRA borrowing.

Reserves and Balances

6.15 The balance on the HIP Reserve was £2,607,836 on 31 March 2022 and is forecast to be £105,128 on 31 March 2024 after transfer from reserves to HRA. This is not sustainable on an ongoing basis.

7.0 Conclusion

7.1 As detailed in the report it is estimated that the HRA will use reserves of £1,700,000 to maintain the working balance per property of £63 in 2023/24.

7.2 The Housing Revenue Account (HRA) is forecast to be significantly impacted by rising costs from energy (net £1.3 million pressure) and contractual inflation (c.£500k), which will not be adequately matched by increased rental income (due to the proposed Government rent cap). The HRA was already facing considerable financial challenges as a result of losing homes and associated rental income to the Sheerwater regeneration project and the legacy impact of 4 years' of rent cuts.

7.3 Whilst current forecasts indicate that the Council can set a balanced budget for 2023/24, it is marginal and not sustainable beyond this period. A number of urgent actions will need to be taken over the coming months, including:

- Looking at the inter-relationship between the HRA and Sheerwater financial model
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8.0 Corporate Strategy

8.1 The report sets out the draft budgets for managing and maintaining the Council's housing stock during 2023/24. 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