COUNCIL – 23 FEBRUARY 2023

HOUSING REVENUE ACCOUNT BUDGETS 2023-24

Executive Summary

Under the Government's current rent setting regime, social rents should increase by up to CPI+1% each year. In light of the cost of living crisis and high inflation rate (10.1% in September 2022), the Government undertook a consultation on an imposed ceiling from 1 April 2023 to 31 March 2024. Having carefully considered the responses to the consultation, the Government has decided that a 7% ceiling would strike an appropriate balance between protecting social tenants from high rent increases and ensuring that social landlords are able to invest in new and existing social housing and provide decent homes and services to tenants. It is proposed that the Council increases rents by 7% for 2023-24, in line with the Government's decision.

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. Many dwellings within the Regeneration Red Line are now being held as vacant as they become void or have been demolished. The HRA is foregoing the rental income from these dwellings whilst still incurring costs.

The Housing Revenue Account (HRA) is forecast to be significantly impacted by rising costs from energy (net £1.4 million pressure) and contractual inflation (c.£600k) in 2023-24, which will not be adequately matched by increased rental income (due to the 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.

The HRA is forecast to make an estimated deficit of £1,365,498 in 2023-24 with a £1,366,898 contribution from reserves being required to maintain a working balance per property of £100.

Reserves are forecast to have depleted to £221,477 by 31 March 2024, which is not sustainable on an ongoing basis. It was always intended that the HRA be compensated by ThamesWey for £3.8 million of revenue costs it incurred in underwriting New Vision Homes' costs of developing the first proposed regeneration scheme for Sheerwater. The receipt of the £3.8 million in 2023-24 is in the process of being secured from ThamesWey and will be critical for the HRA if it is to set a balanced budget in 2024-25 and beyond. This payment will be incorporated into the 2024 ThamesWey Business plans which will presented to Council for approval later in 2023/24.

Recommendations

The Council is requested to:

RESOLVE That

(i) the Final Housing Revenue Account budgets for 2023-24, as set out in Appendix 1 to the report, be agreed; and

(ii) with effect from 3 April 2023, rents be increased by 7%.

Reasons for Decision

Reason: To approve the resources necessary to implement the Council's objectives and to enable the Council to determine charges to tenants for 2023/24.

The Council has the authority to determine the recommendations set out above.

Background Papers:	None.
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1.0 Introduction

1.1 This paper sets out the Council's final 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 £1,365,498 in 2023-24 with a £1,366,898 contribution from reserves being required to maintain a working balance per property of £100.

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 New Vision Homes contract ended on 31 March 2022 and the Housing Services were brought in-house. The new team Housing Landlord Service is now in place in the Council. The Final Account process concluded in August 2022 with an under-accrual of £45,500.

2.3 Rent arrears are increasing. The current tenant arrears are at 5.11% with the HRA current tenant debt at £1 million. The income team have experienced issues with delays in Universal Credit (UC) arrears payments, which have been compounded by the cost of living crisis, adding further pressures to arrears as more tenants struggle to pay bills. 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.

2.4 Rising energy costs in 2022-23 have placed a significant pressure on the HRA. Current forecasts suggest the HRA will be overspent by circa £280,000 on energy costs, which cannot be recovered from tenants.

2.5 Overall, the HRA is forecast to overspend by £216,753 in 2022-23, resulting in a deficit position of £1,019,461 for the whole year.

3.0 Approach to Budget Setting 2023/24

3.1 The final budgets in this paper should be considered alongside the final 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. An initial review of recharges was conducted in 2022-23 with a full review planned for 2023-24.

3.3 Inflation in staff costs has been factored into these budgets and has been offset by the capitalisation of some staff posts to the Asset Management Plan along with savings from restructuring the Independent Support and Extra Care Housing teams.

4.0 Rent and Other Charges

4.1 Under the Government's current rent setting regime, social rents should increase by up to CPI+1% each year. In light of the cost of living crisis and high inflation rate (10.1% in September 2022), the Government undertook a consultation on an imposed ceiling from 1 April

2023 to 31 March 2024. Having carefully considered the responses to the consultation, the Government has decided that a 7% ceiling would strike an appropriate balance between protecting social tenants from high rent increases and ensuring that social landlords are able to invest in new and existing social housing and provide decent homes and services to tenants.

4.2 It is proposed that the Council increases rents by 7% for 2023-24, in line with the Government's decision, and this figure has been incorporated into the final estimates.

Recovery of Charges

4.3 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.

4.4 A major cost pressure is seen on account of the increasing energy prices, which is anticipated to add a net cost pressure of £1.4 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.

4.5 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. Estimates have been made around predicted energy price increases, but these are still volatile at the present time. Income will be based on recharging the full amount, but capping any increase to a maximum of £15 per property per week to protect our most vulnerable tenants from potentially unaffordable price increases over the next financial year. This poses a risk of under-recovery of energy charges.

4.6 Housing-related support charges have also been reviewed. Up to 31 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 1 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. It is no longer intended to apply any subsidy from the HRA towards these charges from 1 April 2023. Tenants will however receive HB where applicable. This should bring savings to the HRA of approximately £184,000. Careline charges have had the uplift applied in line with the Fees and Charges report.

4.7 A £50,000 annual hardship fund has been included in 2023-24 HRA budget to support tenants who are affected the most be the combined increases in service and support charges.

Implementation Date

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

4.9 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 3 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 £5,509,580 in 2022/23 and £5,540,927 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. An amount of £6,699,297 is expected upon completion of the land transfer from Thameswey in 2022-23 for the red, yellow and purple phases.

5.3 The 2023-24 final 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 Rent collection continues to be a significant risk. 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. A new dedicated Income Team Leader is currently being recruited to strengthen the income collection experience in the team in order to tackle the growing arrears. The Housing team are also looking at options to invest in additional software services to help analyse and prioritise arrears cases, as well as, investing in specialist consultancy support to review its arrears policies and processes to maximise income collection over the longer term.

6.3 Assumptions have been made relating to energy price increases for 2023-24 and recovery rates, particularly given key contracts are due to be renewed in October 2023. The team will continue to monitor energy price trends but this continues to be a risk for the HRA.

6.4 Void numbers and turnaround times have been higher than forecast in 2022-23. If this were to continue next year, it would result in further rental income losses and void costs.

6.5 It is also unclear whether the Government will impose further caps on rent increases for future years.

<u>HRA New Build Developments</u>

6.6 The Housing Investment Programme Report elsewhere on the agenda lists new build development schemes. In 2023-24 a new housing development is planned at Bonsey Lane.

6.7 In order for this scheme to be viable for the HRA the new properties will be let at Affordable Rents (up to 80% of market rates). Historically, HRA dwellings have been let at Social rent levels however the HRA cannot afford to subsidise the net cost of new developments. At Social rent (50% of market rates) the additional rental income generated by the new build units will not cover the management, maintenance, and interest costs attributable to the new build dwellings, even with grant.

<u>Repairs, Maintenance, and Management and Contractual Inflation</u>

6.8 The HRA contractual costs, such as responsive repairs, will increase by CPI at 10.1%. However, rental income is capped at 7%. This will exert further budgetary pressures on the HRA for 2023/24.

Major Repairs Contribution

6.9 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

6.10 Under the Sheerwater Regeneration project, approximately 426 HRA dwellings will be demolished. The vacant land will be transferred to Thameswey Developments Ltd with the new replacement affordable housing dwellings owned and managed by Thameswey Housing Ltd. 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 loses the rental income from these dwellings, whilst still incurring costs to maintain and secure them.

6.11 There are now only around 90 occupied 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.

6.12 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. A capital receipt of £6,699,297 is expected from Thameswey in 2022-23 for the land required for red, yellow and purple phases. 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

6.13 The balance on the HIP Reserve was £2,607,836 on 31 March 2022 and is forecast to have dropped to £221,477 by 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 £1,366,898 to maintain the working balance per property of £100 in 2023-24.

7.2 The Housing Revenue Account (HRA) is forecast to be significantly impacted by rising costs from energy (net £1.4 million pressure) and contractual inflation (c.£500k), which will not be adequately matched by increased rental income (due to the 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 Spending controls have been put in place with effect from 9 February 2023.

7.4 It was always intended that the HRA be compensated for £3.8 million of revenue costs it incurred in underwriting New Vision Homes' costs of developing the first proposed regeneration scheme for Sheerwater. The receipt of the £3.8 million in 2023-24 is in the process of being secured from ThamesWey and will be critical for the HRA if it is to set a balanced budget in 2024-25 and beyond. This payment will be incorporated into the 2024 ThamesWey Business plans which will presented to Council for approval later in 2023/24..

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