

DRAFT HOUSING REVENUE ACCOUNT BUDGET UPDATE 2024-25

Executive Summary

This report sets out the current position in preparing the draft Housing Revenue Account (HRA) budgets for 2024/25, prior to the final report to Council in February 2024.

Under the Government's current rent setting regime, social rents should increase by up to CPI+1% each year. The budgeted rents have been prepared on this basis and rents have been increased by 7.7% (based on September CPI of 6.7%).

The report also proposes that a consultation commences on the proposed closure of the Brockhill Extra Care Housing scheme. Brockhill requires significant capital expenditure on fire safety remedial works and a full heating system replacement. The anticipated total capital expenditure required on Brockhill over the next 10 years is forecast to be circa £5.8 million. In addition, whilst Brockhill is a much valued and loved facility by residents, the design and layout of the building does not meet the current expectations for extra care housing as set out in Surrey County Council's Accommodation with Care and Support Strategy and national best practice. This level of capital investment is considered unviable for a building of this age and size. Subject to the consultation, officers will work with residents to identify alternative accommodation based on their individual assessed needs and their preferences and support them through the moving process.

There are still a number of uncertainties remaining, including future capital financing requirements and the Government's rent setting approach, that will influence the final budgets. However, early indications are that the HRA will be in balance next year with an estimated surplus of circa £1 million that could be invested back into much needed capital improvements to HRA stock. This would be an important step towards the longer term stability of the HRA.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) progress in preparing the draft Housing Revenue Account budgets for 2024/25 be noted;
- (ii) Managers, Corporate Leadership Team and Portfolio Holders continue detailed budget preparation for consideration by the Executive in February 2024; and
- (iii) the Council commences consultation with residents, their families and other stakeholders on the proposed closure of Brockhill Extra Care Housing scheme.

Reasons for Decision

Reason: Consideration of these proposals will enable the preparation of the Council's Housing Revenue Account budgets for 2024/25 to proceed.

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

Draft Housing Revenue Account Budget Update 2024-25

Background Papers: None.

Reporting Person: Louise Strongitharm, Strategic Director - Communities
Email: louise.strongitharm@woking.gov.uk, Extn: 3599
Eugene Walker, Interim Finance Director & Section 151 Officer
Email: eugene.walker@woking.gov.uk, Extn: 3070

Contact Person: Simon Price, Interim Head of Housing
Email: simon.price@woking.gov.uk
Nicola Regis, Interim Deputy Director of Finance
Email: nicola.regis@woking.gov.uk

Portfolio Holder: Councillor Ian Johnson
Email: cllrian.johnson@woking.gov.uk
Councillor Dale Roberts
Email: cllrdale.roberts@woking.gov.uk

Date Published: 6 December 2023

Draft Housing Revenue Account Budget Update 2024-25

1.0 Introduction

- 1.1 This paper sets out the progress made to date in preparing the Council's draft Housing Revenue Account (HRA) budgets for 2024/25.
- 1.2 Explanations of the changes and pressures within the different elements of the budget are set out in the sections below.
- 1.3 Further to the HRA Recovery Plan report to Council in July 2023, early indications are that the HRA will be in balance next year with an estimated surplus of circa £1 million that could be invested back into much needed capital improvements to HRA stock. This would be an important step towards the longer term stability of the HRA.

2.0 Forecast Outturn

- 2.1 Adjustments to the revised estimates for 2023/24 have been made to reflect variations identified during the year to date.
- 2.2 The Quarter 2 Budget monitoring for 2023/24 showed a forecast increase in the HRA deficit for the year, from a budgeted £1,336,000 deficit to a forecast £2,306,000 deficit, a worsening in the deficit (overspend) of £970,000.
- 2.3 Work is almost complete reviewing the charges being made to the HRA for staffing, support services and other costs to ensure that they are fair and reasonable for last year, this year and moving forward. The work to date is highlighting an overcharge to the HRA for staffing and support services which will need rectifying in 2023/24.
- 2.4 However, with the anticipated adjustment to the central recharges to the HRA, the forecast HRA outturn for 2023/24 is expected to be close to the budgeted deficit of £1.3 million.

3.0 Approach to Budget Setting 2024/25

Assumptions

- 3.1 The draft budgets covered in this paper do not reflect any additional borrowing that may be required to support next year's Investment Programme and in particular the Housing Annual Maintenance Plan.
- 3.2 During the course of 2023/24, a review of recharge allocations has been undertaken to ensure that they are fair and reasonable to the HRA. The assumptions for 2024/25 includes these adjusted recharge assumptions. The 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 preparing the draft budgets.
- 3.3 Housing and Finance will be updating the 30-year HRA Business Plan as part of the budget setting process. This will involve a review of the current year assumptions on income and expenditure, the development of MTFS budgets using the latest CPI inflation rate, stock condition survey data and latest contractual agreements. This will also involve the development of growth and savings assumptions for updating revenue and capital expenditure budgets for the 30-year period. The exercise will involve completing scenario planning and stress testing of all options considered.

4.0 Rents and Other Charges

- 4.1 The rent increase is based on current CPI+1% limit on annual rent increases in line with the Government Rent Standard. The budgeted rents have been prepared on this basis and rents have been increased by 7.7% (based on September CPI of 6.7%).

Draft Housing Revenue Account Budget Update 2024-25

- 4.2 It should be noted that in light of the cost of living crisis and high inflation rate, the Government imposed a ceiling on rent increases of 7% from 1 April 2023 to 31 March 2024. No announcements have been made on the Government's intended approach to rent setting for 2024/25, but there remains a risk that rent increases may be capped again next year.
- 4.3 In 2024/25, there are fifty-three rent weeks, the extra one week will generate additional rent in the region of £347,000.
- 4.4 Total rental income is forecast to increase by circa £1.6 million in 2024/25 to circa £20,343,000.

Recovery of Charges

- 4.5 Service charges, including energy charges, are based on the cost of the service being provided. The Section 151 Officer has delegated authority to vary service charges in line with external factors.
- 4.6 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.
- 4.7 The assumption is that any housing-related support charges cover the cost of this service. A number of these were considered in the Fees and Charges report to Council in November 2023.

Implementation Date

- 4.8 The new rents will be applied from the first Monday in April (i.e. 1 April 2024).

5.0 Prudential Borrowing

- 5.1 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 is £5,612,000 in 2024/25.
- 5.3 The 2024/25 Draft Budget makes no allowance for repayment of the debt taken on for Self-Financing or for the repayment of the borrowing relating to any new build developments or acquisitions completed up to 2023/24. The borrowing relates to long life assets which are fully maintained.
- 5.4 Work is ongoing to understand the required capital budgets for the Council's Housing Annual Maintenance Plan in 2024/25 given the known issues regarding the poor state of our existing housing stock. This may require additional HRA borrowing, which is not currently factored in to the draft HRA budget for 2024/25.

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.

HRA New Build Developments

- 6.2 The draft HRA budget assumes there are no HRA new build developments during 2024/25.

Draft Housing Revenue Account Budget Update 2024-25

Repairs, Maintenance, and Management and Contractual Inflation

- 6.3 Housing Services were brought in house from 1 April 2022. The Council has recently commenced a new contract for the provision of gas servicing and repairs and is currently procuring a new responsive repairs contractor to commence 28 March 2024. Therefore, the cost forecasts for 2024/25 are based on assumptions.
- 6.4 The total budget for repairs and compliance for 2024/25 is forecast at £3,823,000.

Major Repairs Contribution

- 6.5 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 2023 asset value, the depreciation amount is estimated to be £4,196,000 in 2024/25. The depreciation will contribute towards the Annual Maintenance Plan for 2024-25, including capitalised staff costs.

Sheerwater Regeneration

- 6.6 Under the Sheerwater Regeneration project, approximately 426 HRA dwellings were due to be demolished. This placed considerable pressure on the HRA due to the loss of income and ongoing costs of maintaining empty homes.
- 6.7 In October 2023, the Council agreed to retain and refurbish circa 100 HRA homes. These will generate extra income of around £650,000 to the HRA once they are all occupied. As the timescales for bringing homes back into use are still unknown, rental income for 2024/25 assumes that occupancy will remain at 56 for 2024/25.

Reserves and Balances

- 6.8 With the adjustments to previous budgets for recharges, the balance on the HIP Reserve is forecast to be £830,000 on 31 March 2024 and £1,940,000 on 31 March 2025. Rebuilding reserves is an important step towards the longer term stability of the HRA.

7.0 Brockhill Extra Care

- 7.1 Brockhill Extra Care Housing is a purpose-built two-storey scheme, constructed during the late 1980s. The scheme provides 48 extra care apartments over 2 floors, along with a communal lounge, dining room, kitchen and reception/staff/office areas. The Council provides a dedicated support team at Brockhill, whilst Surrey County Council commissions a care provider to provide individual care packages to residents who need it. The scheme is very popular with older residents in the Borough for its homely setting and operates with a waiting list.
- 7.2 Over the years, the structure of the building appears to have had limited investment with only minor investment internally. As a result of its age and lack of ongoing investment, the building needs major capital works over the next 2 years and beyond.
- 7.3 The communal boiler serving the scheme failed last December causing considerable inconvenience and discomfort to residents and staff. The communal boiler was found to be beyond repair. Furthermore, the heating infrastructure throughout the building is aged and in poor condition and the whole heating system requires upgrading and renewing. The scheme is currently being served by a temporary boiler, which is not a long-term solution.

Draft Housing Revenue Account Budget Update 2024-25

- 7.4 In February 2023, the Council received an updated Fire Risk Assessment for the building that identified that significant improvements were needed, including replacing fire doors and frames and compartmentation works. The combination of the building defects and the vulnerability of the residents means there are high risks around the fire safety of the scheme. In order to mitigate these risks, the Council has implemented a number of interim measures, including introducing a Waking Watch, switching from a Stay Put to an Evacuation Policy, freezing new lettings and upgrading the fire detection system. Where possible, the Council has sought to relocate residents from the first floor to the ground floor to aid evacuation. As a result of the decision to freeze any new lettings, the occupancy level at Brockhill has dropped to 68%.
- 7.5 The urgent heating upgrade and Fire Safety Works have been tendered with the combined cost being circa £2.75 million over the next year. The building is expected to require other planned works over the next 5 years, forecast at a further circa £600,000.
- 7.6 Many other building elements are original and are deteriorating consistent with their anticipated lifecycle expectancy. Over the next 5 -10 years, building components, such as, rainwater fittings, roofing, external joinery, paths/hardstanding, common electrical elements, and floor coverings, are expected to need investment. The anticipated total capital expenditure required on Brockhill over the next 10 years is forecast to be circa £5.8 million, including design and professional fees, inflation, preliminaries and contingency.
- 7.7 In July 2019, Surrey County Council (SCC) approved an Accommodation with Care and Support Strategy and committed to a major programme within the strategy to deliver 725 units of affordable Extra Care Housing for older people by 2030. Any decision around Brockhill will have implications for the delivery of this strategy, along with potentially placing additional cost pressures on adult social care budgets. Accordingly, the Council initiated discussions with officers at SCC in the summer regarding the future of Brockhill, which included a site inspection.
- 7.8 The engagement with SCC officers has been productive and positive, including validating the extent of the capital works required at Brockhill. In addition, whilst Brockhill is a much valued and loved facility by residents, the discussions concluded that the design and layout of the building does not meet the current expectations for extra care housing as set out in SCC's strategy and national best practice.
- 7.9 Sadly, all of the discussions and investigations point to the conclusion that the building is becoming obsolete with the level of capital investment required over the next 10 years being unviable (in the context of the age and size of the scheme).
- 7.10 This report seeks approval to commence consultation on the proposed closure of Brockhill. Under Section 105 of the Housing Act 1985 the Council has a legal obligation to consult its secure tenants on 'matters of housing management' such as changes to the management, maintenance, improvement or demolition of houses let by them, or changes in the provision of amenities. Given the current building condition and the associated risks, it is proposed that the consultation commences as soon as possible and runs for a minimum of 30 days.
- 7.11 The Council acknowledges that this will be difficult and upsetting for people living and working Brockhill, as well as the families of residents living there. However, this consultation is necessary because of the issues with the building, which is no longer fit for purpose. If closure is agreed, the identification of alternative accommodation for individuals currently living at Brockhill would be based on their individual assessed needs and their preferences. This will be done in close dialogue with colleagues in SCC Adult Social Care.
- 7.12 We have already begun moving some residents, who in the event of a fire, could not evacuate safely without assistance, as it is becoming apparent that Brockhill is no longer a safe and suitable place for residents to live.

8.0 Conclusion

- 8.1 As detailed in the report, it is estimated that the Council will be able to set a balanced HRA budget for 2024/25 with an estimated amount in the region of £1 million being transferred from the HRA into reserves. This could be invested back into much needed capital improvements to HRA stock and is an important step towards the longer term stability of the HRA.
- 8.2 There are still a number of uncertainties remaining, including future capital financing requirements and the Government's rent setting approach, that will influence the final budgets.
- 8.3 The next steps required to set the 2024/25 HRA budget include:
- Continuing to refine the budget assumptions, particularly around the capital programme funding requirements.
 - Monitoring Government announcements in terms of rent setting.
 - Commissioning the 30-year HRA Business Plan.
 - Completing the procurement for a new repairs contractor and making any adjustments to budget assumptions.

9.0 Corporate Strategy

- 9.1 The report sets out the draft budgets for managing and maintaining the Council's housing stock during 2024/25. Provision of housing is a key priority within the Council's Corporate Plan.

10.0 Implications

Finance and Risk

- 10.1 The financial implications are explicit in the report.
- 10.2 Specific risks have also been set out in the report.

Equalities and Human Resources

- 10.3 An Equalities Impact Assessment will be completed prior to any decisions being taken on the future of Brockhill.

Legal

- 10.4 None identified at this time.

11.0 Engagement and Consultation

- 11.1 Under Section 105 of the Housing Act 1985 the Council has a legal obligation to consult its secure tenants on 'matters of housing management' such as changes to the management, maintenance, improvement or demolition of houses let by them, or changes in the provision of amenities.
- 11.2 It is proposed that a consultation commences as soon as possible on the future of Brockhill and runs for a minimum of 30 days.

REPORT ENDS