

HOUSING REVENUE ACCOUNT BUDGETS 2024-25

Executive Summary

This report sets out the Council's final Housing Revenue Account (HRA) budgets for 2024/25.

Under the Government's current rent setting regime, social rents should increase by up to CPI+1% each year. The Government has confirmed that there will be no further cap imposed for 2024/25. Therefore, rents are proposed to increase by 7.7% (based on September CPI of 6.7%) from 1 April 2024. Total rental income is forecast to increase by circa £1.79 million to circa £20 million, excluding void losses.

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.

The 2024/25 Housing Revenue Account (HRA) budget includes an increase in interest costs that will be incurred from borrowing an additional £2.5 million to support the capital programme for housing. This is necessary to fund high risk fire safety remedial works, along with a number of Decent Homes improvements. Work is ongoing to understand the capital funding requirements to achieve 100% Decent Homes in future years, along with completing the lower risk fire safety remedial works. It is expected that future years will see a continued need for substantial capital investment in our Council homes and this work will need to feed into the work on the 30-year HRA Business Plan.

The HRA is forecast to make an estimated surplus of £960,279 in 2024/25. This is an important step towards securing a sustainable HRA. Housing and Finance will be updating the 30-year HRA Business Plan during early 2024/25 based on the 2024/25 budget 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.

Recommendations

The Executive is requested to:

RECOMMEND TO COUNCIL That

- (i) the Final Housing Revenue Account budgets for 2024-25, as set out in Appendix 1 to the report, be agreed; and**
- (ii) with effect from 1 April 2024, rents be increased by 7.7%.**

Reasons for Decision

Reason: To approve the resources necessary to implement the Council's objectives for Housing and to enable the Council to determine charges to tenants for 2024/25.

The item(s) above will need to be dealt with by way of a recommendation to Council.

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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 2024/25.
- 1.2 Detailed explanations of the changes and pressures within the different elements of the budget are set out in the sections below. Appendix 1 of the report provides a breakdown of the 2024/25 budget. The HRA is forecast to make an estimated surplus of £960,279 in 2024/25. This represents 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 Repairs budgets are forecast to overspend significantly by £2.4 million. This is in part due to Brockhill Extra-Care waking watch and evacuation staff required to manage the fire safety risk to the building, coupled with a general overspend on voids and repairs (including some additional emergency communal heating works).
- 2.3 Supervision and Management budgets are showing an underspend of £637,000 due to adjustments to recharges and staff vacancies. The energy budgets are also forecast to underspend.
- 2.4 The forecast outturn assumes a revenue receipt of £589,000 from ThamesWey in 2023/24 for the reimbursement of Sheerwater Home Loss and Disturbance payments.
- 2.5 Overall, the HRA is forecast to overspend by £1.23 million in 2023/24, resulting in a deficit position of £2.57 million for the whole year.

3.0 Approach to Budget Setting 2024/25

- 3.1 The final budgets in this paper should be considered alongside the Capital Programme report elsewhere on the agenda, which will influence the overall budget position.
- 3.2 Housing and Finance will be updating the 30-year HRA Business Plan during early 2024/25 based on the 2024/25 budget 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.

Management and Administration

- 3.3 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 include these adjusted recharge assumptions. The allocation has been reviewed for the final budget to ensure the apportionment reflects the current structure.
- 3.4 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. Some staff posts are capitalised to delivery of the Housing Asset Management Plan.

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- 3.5 A review of recharges to the Housing Revenue Account has been undertaken back to 2019/20 (the last year of accounts that are not yet fully audited). The £344,000 adjustment has now been built into the budget for 2024/25. The overall adjustment of £2.1 million is built into the relevant years and has improved the HRA position by £2.1 million overall:

Year	£'000
2019/20	292
2020/21	283
2021/22	286
2022/23	518
2023/24	380
2024/25	344
TOTAL	2,102

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, the Government imposed a ceiling of 7% from 1 April 2023 to 31 March 2024. On 4 January 2024, the Regulator of Social Housing published its annual rent limit guidance, which confirmed that rents for 2024/25 would increase in line with the current Policy Statement without any cap.
- 4.2 It is proposed that the Council increases rents based on current CPI+1% limit 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%).
- 4.3 In 2024/25, there are fifty-three rent weeks, the extra one week will generate additional rent net of voids in the region of £385,000.
- 4.4 Total rental income is forecast to increase by circa £1.79 million in 2024/25 to circa £20.03 million excluding voids.

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 All energy costs within this report relating to gas are using predicted OFGEM capped rates for Quarter 2 of 2024/25 of 6.38p per kWh for residential usage. This is based on the current Quarter 1 rate of 7.49p per kWh with a predicted reduction of 14% being publicised by various energy analysts for the start of Quarter 2. This is a very delicately balanced position especially with the issues around the current states of military and political disruption in the middle east affecting fuel prices. This approach has also been taken as new contract rates for April 2024 are not yet available from our current energy supplier. For sites where energy is provided by ThamesWey, rates fluctuate month by month so to agree a fixed recharge for the year, officers have taken the same approach and used the predicted OFGEM capped rate. This approach is considered fair and reasonable as residents would likely be charged at the same rate should they be paying their bills direct to a supplier.

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- 4.8 All energy costs in this report relating to non-ThamesWey charged electricity are currently based on out of contract rates of 38.25p per kWh. As it is not possible to increase charges to tenants within the year, once charges are fixed, the approach taken is to set budgets at this level. Once contract issues are resolved, the rates are likely to fall to around 28p per kWh. If/when this happens the recharges to residents will be reviewed and energy budgets will be reforecast. Recharges relating to ThamesWey provided electricity are set at the contract rate of 7p per kWh, which is way below the Ofgem capped rate but standing charges imposed by ThamesWey are considerably higher which off-sets the preferential rate.
- 4.9 In summary, energy budgets continue to be very difficult to predict so the approach taken allows the Council to best protect itself against future changes in pricing whilst keeping recharges to tenants fair and reasonable.
- 4.10 Housing-related support charges have also been reviewed. From 1 April 2023, tenancy support charges were introduced (reflecting the work now undertaken by the Independent Support team) and will be eligible for Housing Benefit /Universal Credit. The assumption is that any housing-related support charges cover the cost of this service. Tenants will however receive Housing Benefit where applicable. Careline charges have had the uplift applied in line with the Fees and Charges report in November 2023.

Implementation Date

- 4.11 The new rents will be applied from the first Monday in April (i.e. 1 April 2024).
- 4.12 Service charges will be applied from 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 Since the housing service returned in-house in April 2022, it has become clear that the Council's housing stock is in a poor condition and requires significant capital investment. In July 2023, the Council self-referred to the Regulator of Social Housing for potentially breaching the Homes Standard. Following ongoing engagement, the Council received a Regulatory Notice from the Regulator on 14 December 2023 for breaching the Homes Standard in respect of fire safety.
- 5.3 A programme of works has been developed and costed for the high risk fire safety remedial works and Decent Homes works at circa £37 million. These will need to be delivered over the next 2-3 years. The capital budget sought for 2024/25 is circa £16.8 million which will focus on the high risk fire safety remedial works, along with around half of the outstanding Decent Homes improvements.
- 5.4 This marks a significant upscaling of the Housing capital programme, which has stood at around £4 million for a number of years. The 2024/25 programme will be primarily funded from depreciation; Sheerwater capital receipts (from Purple, Red and Yellow phases); historic capital receipts from Right to Buy sales and disposal of a small number of void HRA assets. The balance of approximately £2.5 million will need to be funded through borrowing. The additional interest costs have been incorporated into the 2024/25 Housing Revenue Account (HRA) budget.
- 5.5 The updated forecast for HRA interest costs is £5.61million in 2024/25.

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- 5.6 Work is ongoing to understand the capital funding requirements to achieve 100% Decent Homes in future years, along with completing the lower risk fire safety remedial works. It is expected that future years will see a continued need for substantial capital investment in our Council homes and this work will need to feed into the work on the 30-year HRA Business Plan.
- 5.7 The 2024/25 final budget makes no allowance for repayment of the debt taken on for Self-Financing or for the repayment of the borrowing relating to historic 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.

HRA New Build Developments

- 6.2 The HRA budget assumes there are no HRA new build developments during 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. 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 £3.82 million.

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. The depreciation amount is estimated to be £4.27 million in 2024/25. The depreciation will contribute towards funding the Annual Maintenance Plan to 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 The estimated reserves position for 2024/25 after adjustments are made to previous years recharges to the HRA is £1.28 million. Rebuilding reserves is an important step towards the longer-term stability of the HRA.

7.0 Conclusion

- 7.1 As detailed in the report, the Council will be able to set a balanced HRA budget for 2024/25 with an estimated amount in the region of £960,279 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 securing a sustainable HRA.

8.0 Corporate Strategy

- 8.1 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.

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 quarterly as part of the Council's new Performance and Financial Monitoring process. Specific risks have been set out in the report.

Equalities and Human Resources

- 9.3 No equalities implications noted.
- 9.4 The staffing budgets are based on the new service structure following the Fit for the Future consultation from 22 November 2023 and 10 January 2024.

Legal

- 9.5 The Council is under a statutory duty under S74 of the Local Government and Housing Act 1989 to maintain a Housing Revenue Account and account for income and expenditure incurred in relation to housing and other property provided under Part II of the Housing Act 1985.

10.0 Engagement and Consultation

- 10.1 No public consultations have been undertaken in preparing this report.
- 10.2 The Housing Service will be undertaking a comprehensive survey of tenants during February and March 2024.

REPORT ENDS