

# HOUSING REVENUE ACCOUNT ANNUAL ESTIMATES 2022/23

## 1. Introduction

- 1.1 The report sets out the estimates for the Housing Revenue Account activities of the Housing Committee. The estimates for the General Fund services will be reported to the Corporate Management Committee on 20 January 2022.
- 1.2 This year due to all the issues encountered over the last 18 months, three lockdowns, social distancing, vacancies of several key senior posts, addressing major Fire Prevention projects, and agreeing the delivery route for future works, it is currently proposed that this Committee approves the attached draft budgets as detailed in this report and approve the changes in rents etc. as also detailed in the report and supporting papers.
- 1.3 It is then intended to provide the Committee with an updated 30-year HRA financial Business Plan in March 2022 showing how we can deliver and finance the aims and objectives of this Committee whilst also honouring the servicing of the PWLB loans over the next 20 years.
- 1.4 Equality impact assessments have been prepared for the services delivered by this Committee. An equality impact assessment is required for new policies included in the draft estimates. These will be prepared by the Budget Manager for the service at the appropriate time.

## 2. Revised estimates 2021/22

- 2.1 The revised estimates have been prepared on a similar basis to the original estimates. The major income and expenditure variations to the original budget are listed below:

<b>Table 1 – Major Variations to the original HRA budget in 2021/22</b>	
	<b>£000</b>
<u>Supplementary Estimates approved during 2021</u>	
• Staffing changes	159
• Re-allocation of Corporate Fraud section costs from the General Fund	30
<u>General Management</u>	
• Increased insurance premiums	56
<u>Special Management</u>	
• Staff regradings detailed in 2018 still not implemented	(48)
• Reductions in the level of Agency staffing in the IRL schemes	(14)
• Lower than anticipated spend on Community First Initiative	(15)
<u>Supporting People</u>	
• Cessation of Community Alarm charges to Tenants	32
<u>Mobile Home Site</u>	
• The annual mobile home re-provision budget will not be used in 2021/22	(45)

<u>Housing repairs</u>	
▪ Increase in the level of works in respect of the Central Heating programme in 2021/22	320
▪ Increase in the level of Major Works scheduled during 2021/22	490
▪ Increase in the anticipated level of installations of Kitchens & Bathrooms	964
▪ Increase in void works to bring properties being transferred to Accent Housing up to a tenatable condition	600
▪ Other net changes	37
• Increase in the level of major repairs will be largely offset by a higher than anticipated transfer from the Major Repairs Reserve (MRR)	(1,774)
<u>HRA income</u>	
• Increase in property rents largely due to lower than expected Right to Buy sales.	(28)
• Increase in Interest received on balances, due to marginally higher than anticipated levels of Bank Base rates	(32)
Other net changes	(13)
<b>Variation from original to revised budget</b>	<b>719</b>

- 2.2 Following the relaxation of many of the rules relating to the ongoing pandemic mid-way through 2021, Housing Officers have been able to start implementing the reviews to services, and, commencing the improvements to our Housing assets sooner than previously anticipated, and this has led to the large increase in maintenance costs detailed in the attached estimates.
- 2.3 The large increase in Major Repairs (detailed above) includes the provision of £300,000 for the installation of PV Panels to the roofs of some of our properties, and is detailed in a separate report included on tonight's agenda.
- 2.4 After taking account of changes in 2021/22, including the budget variations detailed in Table 1 the revised estimated balance in the Housing Revenue Account at 31 March 2022 is £26.9m, with a further balance of £3.0m in the Major Repairs Reserve.

### **3. H.R.A. ESTIMATES FOR 2022/23**

#### **Basis of Estimates**

- 3.1 The attached estimates take account of the proposed changes in housing rent levels and other charges, details of which are set out in this report.

#### **Housing Stock and Sales**

- 3.2 Following the changes to the Right to Buy (RTB) scheme in April 2012, the level of sales increased considerably compared to sales under the former arrangements. Between April 2012 and March 2021 (9 years) we sold 65 properties, however in the current year we have only sold three properties by early December 2021. The attached estimates reflect current projections based on outstanding applications, and previous years, allows for future sales of six properties a year.

- 3.3 To help compensate for the loss of properties sold under RTB the Council has been acquiring available strategic properties on the open market. Between April 2013 and March 2021, the Council acquired 23 properties. The Council has also purchased five new flats on a private development in Addlestone, To date these property acquisitions have been purchased using a mixture of HRA balances and monies set aside from the sale of RTB properties. However as the Council continues to build new units for the HRA around the borough, it is likely that the purchase of further properties will reduce, unless an acquisition can facilitate a larger development.
- 3.4 The draft budgets assume that during early 2022 the new development at St. George's Road in Addlestone will be completed, and it is hoped that a start will be made on the new development on the former nursery land in Egham, which will result in just over 20 new additional units of housing to be completed between 2022 and 2023.

#### **Housing repairs - Major works programme**

- 3.5 In previous years the Committee has requested details of what is included in the Major Repairs budget and therefore set out below is the composition of the Major Works budget for 2022/23.

<b>Table 2 – Major works budget for 2022/23</b>	
	£000
<b>Internal Works Programme</b>	
Re-provision of commercial boilers in IRL's	300
Electrical Rewires	180
Fire Door replacement (including Surrey Towers)	600
Lift replacements	400
<b>External Works Programme</b>	
Replacement windows and doors	925
Roofing, Chimneys & rainwater goods (Gutters, downpipes etc)	3,500
Surrey Towers Roof	1,100
External Wall finishes	1,200
<b>Supervisory Costs</b>	
Contract management	600
Design specification costs for IRL refurbishments	250
<b>Total Special Works budget in 2022/23</b>	<b>9,055</b>

- 3.6 In addition to the major works listed above, the Housing Repairs section is also anticipating spending a further £1,250,000 on Central Heating systems and £1,650,000 on Kitchen & Bathroom upgrades, and these works in conjunction with those detailed above in Table 2 will help the Council move towards full compliance with the Decent Homes Standard.

#### **Debt Charges and Depreciation**

- 3.7 In late March 2022 the Council is required to make its first repayment of the sums borrowed from the Public Works Loan Board (PWLb) in March 2012. This initial payment will be fully covered by retained sums arising from Right to Buy sales since 2012. The next repayment of £10m is not then due until March 2027, followed by further repayments of £90m that is due to be repaid between March 2032 and March 2042.

- 3.8 These repayments were detailed in the 30-year Business Plan prepared last year, and will also be included in the revised Plan to be presented to this Committee in March 2022. While the HRA is likely to be able to make the 2022 & 2027 repayments in full, it is highly likely that the HRA will probably have to take out future loans in order to service the large repayments between 2032 & 2042 (totalling £90m), as it is unlikely that the Council will be able to make repayment in full on the due dates.
- 3.9 When we sell properties under the Right to Buy, as well as receiving a set aside sum that needs to be used to re-provide new housing the Council also receives an element to cover the assumed debt on the property. As at April 2021 these receipts stood at just over £2.98m and these funds have been set aside in the accounts to cover the PWLB loan repayments as they fall due. These set-aside receipts will fully cover the small repayment to the PWLB in March 2022, though only partially cover future repayments.
- 3.10 As part of the Self-Financing settlement we are expected to set aside an annual sum in respect of the depreciation of our stock. This is based upon prevailing property valuations, which are revalued at the 31 March each year. A new revaluation of our stock based on the "Beacon" principle was carried out by a firm of external valuers in early 2020.
- 3.11 The sums calculated for depreciation are transferred to the Major Repairs Reserve (MRR) where they can be used to fund any major works carried out to maintain our stock, or to pay off HRA debt as required. However, if there is any balance in the reserve at the end of one year this will automatically be carried forward for use in the next financial year. (A summary of movements in the Major Repairs Reserve can found in the detailed estimates)
- 3.12 As a consequence of the large increase in the level of major works and improvements to our Housing stock there will be insufficient funds in the Major Repairs Reserve during the coming year (2022/23) and therefore the HRA will need to make a further transfer from the HRA balances as set out in the attached estimates.
- 3.13 Since the gradual introduction of Universal Credit in Runnymede during 2018, it has been noted (and reported to this Committee) that the level of arrears has increased and therefore a "bad debt" provision of £90,000 has been included in the attached estimates for 2022/23. Obviously if the level of rent arrears and write offs do increase significantly during the coming year it may be necessary to increase this provision in subsequent years.
- 3.14 In the current year's budget a provision is included to enable the transfer of up to £30,000 of HRA funds to help top up the DHP contribution received from the DWP. The attached estimates also propose that the Council continues to increase the DHP contribution by a sum of £30,000. Under current rules the Council is obliged to seek permission from the Secretary of State to agree to the proposed transfer to the DHP fund on an annual basis, and therefore officers will contact the Secretary of State at the appropriate time to obtain permission to transfer the proposed £30,000. Members should note that any contribution from the HRA can only be used to help HRA tenants who require assistance, and this assistance is granted using the same criteria as set out in the Council's DHP policy.
- 3.15 In recent years we have also included a provision of £20,000 to help those households in financial difficulties who do not meet the criteria of the DHP policy, for example those not on Housing Benefit, and it is proposed to continue making this provision in 2022/23. This pot will be administered by the Housing Services Manager and Head of Housing & Business Planning to allocate on a case by case basis, using similar guidelines as contained in the Council's DHP policy.
- 3.16 Officers are also considering using some of the current Homelessness grants received from the Government to further increase the assistance to tenants, where it can be shown that there will be deliverable outcomes that will meet the grant criteria, though as

any awards to tenants will be funded from General fund grants they are not detailed in the attached estimates.

### **Capital Expenditure**

- 3.17 The attached estimates also make provision for the impact of Capital Expenditure on the Housing Revenue Account.
- 3.18 Following changes to the Pooling regulations in March 2021 the Council can now fund up to 40% of any costs incurred in providing additional affordable Housing, which is an improvement on the 30% limit previously allowed.
- 3.19 For the last seven years the Council has been acquiring properties in order to help replace those properties sold under the Right to Buy, and to extinguish 1-4-1 receipts. An annual budget (£1.3m) for these purchases are included in the authority's Capital Programme, though following the Pooling changes in March 2021 we now budget to fund 40% of any costs from set aside Capital Receipts, the residual costs of around £780,000 are funded from HRA balances, as detailed in the HRA Estimates summary.
- 3.20 Following the decision by this Committee in April 2021 to buy a plot of land, and the decision by the Committee in March 2021 to set up a development fund of £25m over the next five years, a further notional sum of £5m has been included in the attached budgets, though for this sum to be released it will need the approval of this Committee and the approval of both Corporate Management Committee & Full Council. Due to the sums involved it is unlikely that much of this will be funded from retained 1-4-1 receipts.
- 3.21 The summary also includes a provision of £1.55m to cover the potential start on developments of the former Dunkirk Nursery land and the conversion of some garages into bedsit units, that will provide purpose built temporary accommodation to help meet the needs of our residents and reduce the Council's reliance on expensive Bed & Breakfast accommodation paid by the General Fund. It is hoped that both of these schemes will be brought forward to this committee for formal approval during the coming year, as before any costs can be incurred, they will need to be approved by both this Committee and Corporate Management Committee. The draft figures assume that the costs of these projects will be largely funded from HRA working balances
- 3.22 At this stage no provision has been included in the budgets for the future proposed development in the New Haw area.

## **4 RENT REVIEWS**

- 4.1 Current guidance from the government allows providers of Social Housing to increase rents by a maximum of CPI + 1%. (The September 2020 CPI figure was 3.1% which means the Council can increase rents by 4.1%) After taking into account future repayments to the PWLB, and the high level of Housing repairs required in the near future, officers are recommending a rent increase of 4.1% with effect from April 2022.
- 4.2 An increase at this level means that any tenant who receives assistance through Housing Benefits and or Universal Credits will continue to receive similar levels of benefit next year. Any increase over the proposed maximum will result in the Council being penalised through the DWP Housing Benefit subsidy mechanism, thereby potentially cancelling out a significant proportion of any betterment achieved
- 4.3 Table 3 shows the predicted average rent levels by property bedroom size, based upon an across the board rent increase of 4.1% for 2022/23:

<b>Table 3 - Housing Weekly "Social" Rent Levels</b>			
No. of Beds	Average weekly rent 2021/22	April 2022 increase (4.1%)	Average weekly rent 2022/23
	£	£	£
Bedsit	68.51	2.81	71.32
1 Bed	94.20	3.86	98.06
2 Bed	112.91	4.63	117.54
3 Bed	123.34	5.06	128.40
4 Bed	134.81	5.53	140.34
5+ Bed	152.24	6.24	158.48

- 4.4 The proposed increase in rents will result in an average rent in Runnymede of £116.25 in 2022/23, which is around £4.56 more than in the current year.
- 4.5 While the proposed rent increase will see rents increase the average rent will only be around 10p per week higher than the average rent in April 2016 of £111.45 prior to the four years of enforced reductions.
- 4.6 The above table does not include those properties let on Affordable rents which it is also proposed will increase in line with the guidance where this is possible, within the current affordability limits. The average rents for the 26 units (at April 2021) let at Affordable rents was £178.85.

## **5 OTHER HRA RENTS AND CHARGES**

- 5.1 Rents and charges are set out in the schedule that follows the estimates. The levels of income generated from the proposed charges are included in the estimates for 2022/23.

### **Tenant Service Charges**

- 5.2 Government policy recommends that services that are over and above that required for general management and maintenance are separately identified and charged to tenants. Local authorities retain discretion to decide what services it is appropriate to charge for. The government expects authorities to increase service charges by no more than inflation (CPI + 1.0%) unless there are clearly identified reasons for a change (e.g. different level of service, energy price increases).
- 5.3 As in previous years the charges have been reviewed to reflect changes in the costs of services provided at each estate. Details of the new proposed charges are included in the attached fees & charges schedule.
- 5.4 During the coming year officers are proposing to introduce tenants service charges on temporary accommodation lettings and initially this will only be levied on new tenancies. The charges which will be calculated on a property by property basis, by Housing officers, will be based upon relevant costs so as to ensure that where applicable the tenants will be able to claim Housing Benefits to cover these costs. Once introduced the relevant charges will be included in subsequent years fees and charges tables.

### **Heating and Hot Water charges**

- 5.5 Charges are made for heating and hot water at Independent Retirement Living (IRL) properties that do not have separate meters. The charges at Beomonds and Floral House cover heating and hot water. The charge at Heatherfields covers heating only as the hot water supplies are separately metered. All three schemes have communal gas boilers.

- 5.6 Members will be aware that energy prices have been volatile in recent years and especially during the last six months and it is difficult to predict future movements. Although the Council is able to buy energy supplies in bulk, we are not immune to these price changes.
- 5.7 Following the reduction in the charges for 2019/20 it is currently estimated that the charges paid by tenants will meet the anticipated price increase recently incurred and therefore no further changes to these charges are proposed for the coming year 2022/23, though it is likely that these charges will need to increase in 12 months time.

	Current charges		New Charges (£)	
	Weekly	Annual	Weekly	Annual
Beomonds	£6.70	£348.40	No change	n/a
Floral House	£6.70	£348.40	No change	n/a
Heatherfields	£3.60	£187.20	No change	n/a

#### **Use of Guest Bedrooms**

- 5.8 A charge is made for the use of guest bedrooms in IRL accommodation. This charge was increased in April 2019 by 50p resulting in a charge of £13.00 a night (including VAT). This charge normally generates around £2,500 pa, though this has reduced considerably during the recent pandemic, and no increase is proposed for the coming year.

#### **Heathervale Way Mobile Home Site**

- 5.9 An increase in line with those proposed for HRA dwellings of 4.1% is recommended for the caravan rents to be effective from the first rent week in April 2021. Table 5 sets out the revised weekly rents accordingly:

	No. of units	2021/22	2022/23
		£	£
Single room mobile homes	11	54.08	56.30
Double room mobile homes	6	81.12	84.45

- 5.10 As reported in January 2015 the government introduced new regulations to limit the level of increase in Mobile Home pitch fees (site rents), and this generally limits any uplift to the level of increase in the Retail Price Index (RPI). A further complication is that any increase from April 2022 will need to be based upon the January inflation indices issued in February 2022, and so it is proposed that officers calculate the appropriate increase in late February so that we can advise the residents of the site accordingly. The attached estimates are based upon an increase of 4.0%

#### **Rents of Shared Ownership Properties**

- 5.11 Agreements for shared ownership properties provide for a reasonable yearly rent to be charged. These rents are traditionally fixed by reference to the equivalent Council rents, making appropriate deductions for the maintenance liability falling on the tenant. Therefore, an inflationary increase of 4.1% in rents is proposed for April 2022.

## **Shared Houses**

- 5.12 The Council has adapted two properties into Shared houses, which each provide four separately rented rooms. The cost of these works was met from the repairs budget and the intention is that where possible we will use these properties as an alternative to Bed & Breakfast accommodation. The costs of furniture & furnishings were funded from the Homelessness Reduction Act grants that the Council has received. Rents for these eight rooms average around £107.00pw plus service charges in 2021, though a recent valuation exercise for the two properties indicates that in order not to breach the affordable rents (80% of market rents), it is unlikely that these rents will be increased in April 2022. It is necessary to limit these rents as otherwise the charges would not be eligible for 100% Housing Benefits assuming the tenant's personal circumstances met the necessary criteria, which could negate one of the main points of creating these facilities.

## **Other charges**

- 5.13 In April 2018 the Council introduced a new Management charge of £17 for the tenants of the IRL schemes, which was created to replace the former Supporting People charge that was covered by a subsidy from Surrey CC. For those tenants in receipt of benefits the costs are picked up as a Service Charge for benefit purposes. In light of the current pandemic and the ongoing review of the working arrangements for the IRL managers no change to this charge is proposed for April 2022.

## **6 HRA RISKS**

- 6.1 In setting the budgets for 2022/23 it is important to set out the risks that have been considered and factored into the HRA estimates.

**Universal Credits** – It is predicted that following the introduction of Universal Credits the changes will result in increased Rent Arrears, as a consequence of payments for those tenants being in receipt of Housing Benefit, being paid direct to the claimant 4 weekly in arrears, as compared to being credited directly to their rent account on a weekly basis. In other areas where Universal Credit has already been introduced the level of arrears have increased considerably while tenants get accustomed to managing their finances. It is hoped that some of this increase will be negated by the recently implemented Rent Sense system to help staff monitor and recover rent arrears.

**Inflation** – Traditionally in Housing, inflation was not regarded as a problem as rents tended to be linked to inflation, meaning that when costs increased so did the rents charged. Between April 2016 and March 2020 this was an issue as our rents were reduced annually by 1% while the Government's favoured inflation indices (CPI) was increasing by 2-3% pa. Following the government's decision to once more allow Councils to increase social rents for 5 years from April 2020, it is hoped that inflation will not create such issues in the near future, especially as the interest on our PWLB borrowings were fixed at the time of taking out the loans (2012). Though it should be noted that recent large increases in utility charges and the shortage of building materials and labour over the last six months are likely to cause potential problems to our housing Repairs budgets. At this time we have not made any special provision in the attached estimates though we may need to factor in some additional costs when considering the updated 30 year plan early in 2022.

**Debt Repayment** – Due to the enforced reduction in rent levels between April 2016 and March 2020, the need to build new affordable housing in order to utilise the retained "1-4-1 Right to Buy receipts", there is some uncertainty if there will be sufficient funds between 2032 & 2042 with which to pay down the £90m of PWLB loans that fall due in that period. (See also Para 3.8 above) Earlier repayments of £2m are due to be repaid in March 2022, and this will be funded from the Council's share of Right to Buy receipts (Table 6, below), with a further £10m in March 2027 which will be funded from a combination of Right to Buy receipts and HRA working balances.



**Major Insurance incident** – While any costs from a major claim will generally be met in the form of an insurance claim, the disruption caused to the Housing department and tenants within our already constrained stock, places a large imposition on the work force and inevitable disruption to households affected.

**IT Re-provision** – As has already been reported to this Committee the Council has recently decided to upgrade the Housing IT system provided by the current supplier. While this will be lot less disruptive than acquiring a totally new system it will take a period of time to upgrade existing modules and install new modules that have been acquired, and then staff will need to be trained on how to best use the new software, in order to ensure that we gain the maximum benefits of the enhanced systems.

## **7 GENERAL FUND FEES AND CHARGES**

### **Rents of former Leisure Services Properties**

- 7.1 In addition to collecting the rents for the Housing Revenue Account properties, the Housing department also collects the rent for several former Leisure properties in the Borough. As Community Services Committee approved the increase in its fees and charges last November, before the proposed change in housing rents was known, it has been agreed with the Assistant CEO that this Committee be asked to approve an inflationary increase, in line with the increases to the HRA social rented properties on these properties of 4.1% from the first rent week in April 2022.

### **Other Housing charges**

- 7.2 Following an increase in April 2021 no further changes to the Bed & Breakfast charges have been proposed for the coming year. As a consequence the weekly (and daily) accommodation charges for the use of Bed & Breakfast Accommodation remain unchanged at £182 (daily £26). It is necessary to keep this charge below the LHA rate in order that users of the service can obtain HB support to cover the costs of their stay for this accommodation, and officers will keep an eye on LHA rates with a view to amend charges in subsequent years.
- 7.3 As our charges in respect of Houses in Multiple occupation licences (HMO fees) are already felt to be high, no increase has been proposed for next year.

## **8. H.R.A. - CONCLUSION**

- 8.1 The setting of the estimates for 2022/23 is based upon the assumptions included within the HRA Business Plan (unless specified above), having been updated for developments that have occurred over the last year.
- 8.2 The proposed rent increase of 4.1% from April 2022 is consistent with government guidance, which will also ensure that the authority will not be penalised through the loss of Rent Rebates subsidy entitlement.
- 8.3 The large increase in the Housing Repairs budget for 2022/23 represents the commencement of a multiyear programme of reversing the low level of expenditure for several years, and will help the authority meet its Decent Homes obligations.
- 8.4 The table below shows the HRA estimated balances and reserves at the 31 March each year.

<b>Table 6: HRA estimated balances and reserves £m</b>		
<b><u>Description</u></b>	<b><u>March 2022</u></b>	<b><u>March 2023</u></b>
HRA working Balances	£26.9m	£18.1m
Major Repairs Reserve	£3.0m	£nil
Proceeds from Right to Buy Sales		
- Sums set aside for debt repayment	£1.4m	£1.7m
- Retained 1-4-1 receipts	£0.4m	£0.2m
HRA PWLB loan borrowings	£100.0m	£100.0m

- 8.5 The above table illustrates that while there are considerable balances in the Housing Revenue Account, it should be noted that this needs to cover both current and future spending plans, new developments that may be agreed by this Committee, and also the future need to service the £100m of borrowings between April 2022 and March 2042.
- 8.6 The attached estimates only cover the financial period to March 2023, though it is planned to bring an updated copy of the 30 year HRA Financial model to the March 2022 meeting of this Committee in which members will be able to consider the longer term financial priorities of the Housing Revenue Account