



Housing Revenue Account Business Plan 2012 -42

Local solutions for local issues

JANUARY 2012

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ANNEXE A - Risk Summary

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FOREWORD

This is an exciting time for the landlord service at Waverley. For many years the service has had insufficient cash to undertake the necessary work to its properties to meet the Government's Decent Homes Standard. Waverley Borough Council was instrumental in bringing about a review of how local authority housing was funded. With effect from April 2012 the financing system for local authorities with retained housing stock will change, granting councils more freedom over their assets, and retaining all the revenues raised from its properties. In return Waverley must accept a large debt secured against the housing stock, repayable over the next thirty years.

This presents a great opportunity for Waverley Borough Council. In the past the return of more than 50% of rent receipts to central government has constrained the levels of investment available. Under the new system, we are free to determine our own priorities, to provide a balance between managing the debt levied, greater investment in maintenance & improvement, and the provision of new affordable homes within the Borough. Together with Decent Homes backlog funding from the Homes & Communities Agency of £8.5million over the next three years we will use some of the available revenue to ensure all of our properties are brought up to and maintained at decent standards. This will be the first priority for us, followed equally by the provision of more affordable homes for those in need and further improvement to the stock before starting to make debt repayment in later years. The proposed investment in both stock improvement and new affordable homes will have a positive impact upon the local economy and will encourage employment.

Councillor Keith Webster, Portfolio Holder Housing

Angela Smithers, Head of Housing

Introduction

The Housing Revenue Account (HRA) Business Plan sets out the Council's main objectives, as a landlord, over a 30 year period. It has been developed to reflect the findings from tenant consultation and in line with Council's corporate priority for affordable housing; Waverley will work hard to provide more affordable housing in the Borough for people in housing need. The Council aims to be an excellent landlord, managing its own housing stock well and improving the fabric and condition of its properties.

In April 2012 new legislation comes into force to give the Council greater freedoms and flexibility to manage its housing stock according to local needs and priorities. For the first time, a long term sustainable business plan for the Council's landlord service function can be developed. The new financial regime will be good for Waverley. As this business plan demonstrates, Waverley's landlord service will, for the first time, generate opportunities to invest in new homes and improvements beyond the decent homes standard. In time provision will need to be used to manage HRA debt repayment. However, it is the Council's intention first and foremost to reinvest as much resource as possible in the twin priorities of improving the existing housing stock and developing new affordable housing.

The Housing Revenue Account collects all its revenue from tenants' rents and charges. It will continue to be financially independent of the Council's General Fund which is funded through the Council Tax.

The Business Plan will be reviewed annually.

Options for debt profiling

It is the Council's intention to manage its Housing Revenue Account in such a way as to maximise the amount of resources that are available for investment both in improving the Council's existing housing stock and in building new affordable homes. The profiling of the debt is therefore a critical issue for this business plan.

There are a number of options for debt profiling in terms of structuring a debt portfolio for the HRA Business Plan. An interest rate of 4% has been assumed to be applied over the 30 year life of the plan, assuming no repayment of debt until the end of the 30 year plan period. However, in order to reduce interest costs a number of financing options are possible that must be balanced against investment priorities.

Options	Repayments	Years	Interest rates	Interest Paid	Balances to Reinvest/Repay Debt
Option 1	No debt repayment	30	4%	£223m	£578m
Option 2	Repay from Year 1	15	Mixed Rate	£49.8m	£786m
Option 3	Repay from year 6	25	4%	£138m	£680m
Option 4	Repay from year 6	19	Mixed rate	£84m	£791m

The preferred repayment profile is option 3, and it is this option that has been assumed in this business plan. The actual rate of interest paid will depend on the Treasury gilt markets at

the end of March 2012. A 1% movement in interest rates will result in a higher/lower cost of £34m over the life of the Business Plan.

Funding Service Aspirations and Repaying Debt

The new self financing regime gives the Council the freedom to decide how to spend its resources. The basic business plan has made provision for routine management and maintenance and to meet the decent homes standard by 2015. The plan shows that right from the outset, the service will generate resources, which can be used to reinvest in the Council's housing priorities, and to manage the debt-financing.

The plan proposes that the use of these surpluses over the lifetime of the plan will be as follows:

Year One to Five	1/2 stock improvement and 1/2 new affordable homes fund
Year Six to Ten	1/3 stock improvement, 1/3 new affordable homes fund and 1/3 debt repayment
Year Eleven to Thirty	1/4 stock improvement, 1/4 new affordable homes, 1/2 debt repayment

Detailed spending of both the stock improvement fund and the new homes fund will be driven by new stock investment and affordable housing development strategies.

WAVERLEY'S HOUSING INVESTMENT PRIORITIES

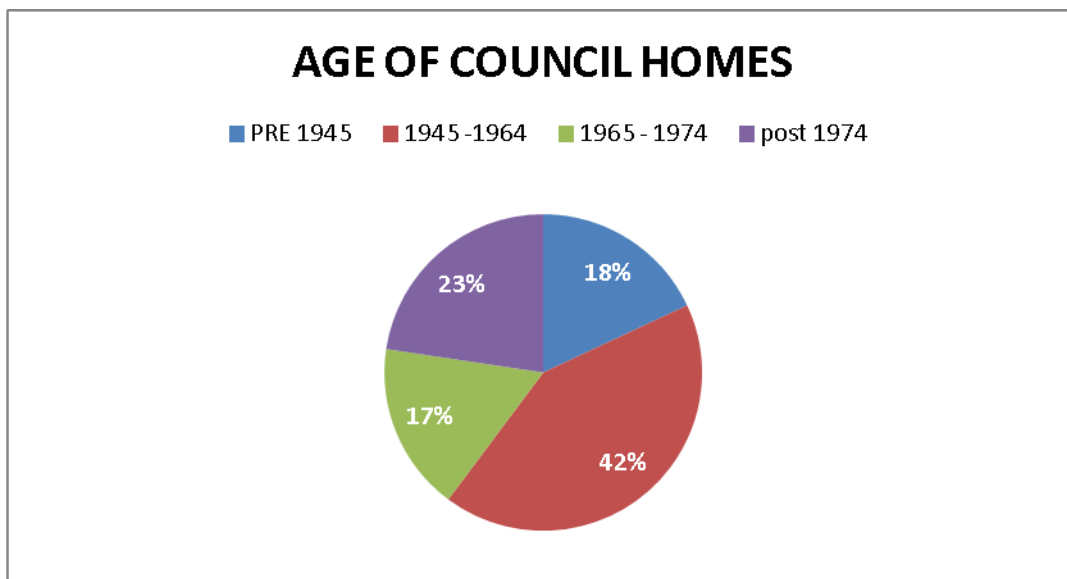
The main housing priorities for the Council are:

- **To improve the Council's housing stock.** Waverley will meet the Decent Homes Standard by 2015. In future years, we will continue to invest in a sustained programme of improving and modernising our housing stock. We will develop, alongside this business plan, a comprehensive stock modernisation and renewal programme to guide our year-on-year programme of works;
- **To develop new affordable housing.** We will accrue a fund to invest in new build on Council-owned sites. We will develop, in conjunction with this business plan, a series of five-year housing development programmes to guide our investment.
- **To manage the HRA debt effectively** to maximise the resources that are available to invest in improving existing Council homes and building new ones.

Waverley's Housing Stock

Council housing is a significant aspect of Waverley's core service delivery, with an annual turnover of £25m, Housing Revenue Account assets valued at £295m and 4,889 properties. This represents approximately 10% of all homes in the Borough.

The majority of council homes are located in the urban areas (70%); the remaining homes are in the neighbouring villages. Waverley has a diverse mix of dwellings to suit all needs. 45% of the homes are houses, 35% flats and 20% bungalows. 60% of the homes are family sized accommodation. There is a range in the age of the stock with 60% over 48 years old.



Decent Homes Programme

Meeting the Decent Homes Standard by 2015 is the first priority of this business plan.

The Government launched the Decent Homes Standard for social housing in 2001 with a deadline of March 2011 to achieve the standard. Currently 31% of the Council's stock does not meet the Decent Homes Standard. In 2011 the Council successfully bid for £8.46m back log funding over the three years commencing 1 April 2012. The funding will cover the majority of backlog works with 10% to be met by the Council's own resources – this will be the first call on surpluses accrued over the first three years of this business plan.

The Decent Homes programme includes a majority of the work to replace kitchens and bathrooms to meet the decent standard.

Decent Homes Programme 2012 to 2015 work to be completed	£'000
Kitchens	4,608
Bathrooms	2,791
Heating	3,056
Windows	393
Doors	184
Rewiring	464
Roofs	243
Walls/Chimney and other	224
Total draft HRA capital programme (Decent homes)	11,963

Ongoing maintenance programme: 30 year work forecast

This Business Plan is underpinned by comprehensive stock survey data, which considers the life expectancy of the stock by property element eg roof, heating, windows. The 30 year work forecast indicates the type of works that must be completed to meet the decent homes target and keep the properties fit for purpose. The early years see a large programme of works for kitchen and bathroom replacements and Decent Homes works. The programme identifies cyclical maintenance works that need to be carried out to keep homes habitable. The stock data was validated by Rand Associates in November 2011.

The Business Plan also gives the opportunity to consider stock aspirations in the future eg sound insulation, energy saving initiatives, remodelling. Alongside this business plan, the Council will develop a comprehensive property options appraisal.

Rents

Rent Guidelines to convergence

Waverley's rents are currently below the Government defined target rents for the local area. The financial model produced by the Department for Communities and Local Government for self financing assumes that the Council will continue to follow the Government's rent restructuring guidelines until convergence with other local providers is achieved in 2015/16. The annual formula for target rent increases is $RPI + 0.5\%$. In 2012-13, based on September 2011 RPI this works out at 6.1%. After 2012-13 RPI is assumed at 3.5% and average rent is increased by this plus 0.5% growth for the remainder of the Business Plan.

Risk Management

The risks associated with the capital debt, and the servicing thereof are contained within the Council's Risk Register, which is attached at Annexe A.

Business Plan Assumptions

This HRA Business Plan has been produced for a 30 year period starting 1 April 2012 with a baseline position as per the DCLG's model February 2011;

DATA from the DCLG Model	Waverley
Self financing implementation assumed	2012
Opening housing stock	4,889
Opening Debt Allocation (Valuation) (£'000)	192,035
Debt taken on at settlement date (£'000)	188,797
Indicative Debt Cap (£'000)	192,310
Average debt per dwelling (£)	39,321
WAVERLEY ASSUMPTIONS	
No. of years of self financing cashflow	30
Base inflation from 2013-14 onwards	3.5%
Rental income growth	0.50%
Rent convergence	2015-16
Years to rent convergence at model start date	4
Average interest rate on borrowing in Business Plan	4%
The debt profiling is based on a lower rate with PWLB as at 28th March 2012 which will not be known until 26th March 2012	
Stock loss through right-to –buys (current rules)	133
Decent Homes Programme completed	2014-15
Percentage of voids assumed	2%
Provision for bad debts from 2013-14	0.3%

The base financial data that supports the Business Plan is attached at Annexe B.

