

APPENDIX A.4

WAVERLEY BOROUGH COUNCIL

COUNCIL MEETING – 21 FEBRUARY 2012

REPORT OF THE EXECUTIVE - 7 FEBRUARY 2012

FINANCIAL STRATEGY 2012/13 – 2015/16

HOUSING REVENUE ACCOUNT BUSINESS PLAN – REVENUE BUDGET 2012/13

Housing Revenue Account

- 1 On 21 November the Government issued Housing Revenue Account (HRA) Self-financing Determinations – final confirmation that the new regime for local housing authorities would be introduced on 1st April 2012.
- 2 The new system relies on authorities taking on a level of debt representative of the value of their stock in return for which all rent income will be retained locally. As a landlord Waverley will face new challenges, moving away from a system in which it was impossible to plan for the long term and reliant on annual Subsidy Determinations. Instead there is the opportunity with more certainty to adopt a more strategic, longer-term approach to ensuring that housing needs are met, housing stock is maintained and, hopefully, that more homes are provided.

Self-Financing Determinations

- 3 The debt settlement is through a net present value (NPV) assessment of the HRA cash flows over the next 30 years based on uprated allowances from the subsidy system and assumed levels of rental income.
- 4 The uprated allowances in the cash flow are indicative of the need to spend on management, maintenance and major repairs. The self-financing settlement significantly allows for increased spending on major repairs to ensure that it is sufficient to maintain stock in decent condition once the decent homes standard has been achieved. It also now includes an allowance for disabled adaptation work. Most major repairs will continue to be funded by revenue and the resources included in the major repairs reserve to support capital expenditure.
- 5 Rent reform is to continue under self-financing and rental income is assumed to follow the path to convergence in 2015-16 with rents after this date increasing by RPI plus 0.5%. The rent rebate subsidy limitation (RRSL) penalty will continue for those with average rents in excess of guideline.

2012-13 Draft Revenue Estimates

- 6 There has again been rigorous scrutiny of draft budgets through the Council's 'star chamber' process involving the Chief Executive, Finance and Service Portfolio Holders, Heads of Service and, in the case of the landlord service, the Chair of the Tenants' Panel to examine operational and staffing budgets in detail. There will be a vacancy savings target for the HRA but further major change had not been proposed in 2012-13 because:-
- ❖ Time is needed for self-financing to become established
 - ❖ There is a new head of service in place who will be reviewing structures and service delivery
 - ❖ Major new contracts, that will result in better value for money, need to be mobilised early in 2012-13
7. During 2011-12 a new contract for Waverley's responsive repairs and void work has been awarded and will be effective from 1st February 2012. It is estimated that savings of some 20% can be achieved on the prices in the previous contract, with savings reflected on responsive maintenance whereas cyclical and planned maintenance budgets have been increased to reflect the programmed works which are necessary.
8. The Business Plan is also able to support a continuing revenue contribution to capital expenditure which will help fund the estimated shortfall of capital resources over the 30 year period. The amount of £770,000 appears on the HRA summary page at [Annexe 1](#).

Rents

9. Government's policy on rent convergence continues to influence rent levels in the Business Plan. The normal base for rent increases has been inflation as measured by RPI in September prior to the application of the increase. High inflation in September 2011 (RPI 5.6%) resulted in a target rent increase of 6.1% and led to a high guideline rent increase for Waverley of 8%. It was on this basis that current year rents were increased by the 2011-12 equivalent guideline rent increase of 7%. However, inflation has been gradually reducing since September (RPI 5.4% in October) and in order to maintain the path to rent convergence in 2015-16, officers consider that an average rent increase of around 6% would be appropriate.
- 10 A number of assumptions underpin both the draft estimates and the starting position of the 30-year Business Plan, as follows:

Key Assumptions in Draft Budget/Business Plan

- ❖ Average Rent Increase at Target Increase of RPI plus 0.5%
(6.1% based on September, 5.9% based on October)
- ❖ Net additional rent income £770,000
- ❖ Each 1% equates to £133,750 (net after subsidy penalty)

- ❖ Maintenance at new contract prices
- ❖ Landlord service at 'Status Quo' pending review
- ❖ No Pay Award
- ❖ Working Balance maintained at £1,750,000
- ❖ Total debt in Business Plan £192,741,000 (not final until January 2012)
- ❖ Average interest rate in Business Plan 4%
- ❖ Debt repayment profiling to be undertaken balancing stock investment/service development against debt repayment.
- ❖ Business Plan financial model based on current interest rates which, if achieved, will provide capacity to invest in the housing service and repay debt which will be addressed in the Plan.
- ❖ Decent Homes achieved 2014-15
- ❖ Backlog funding of £8,460,000 to be applied

2012-13	£2,318,000
2013-14	£3,238,000
2014-15	£2,904,000
- ❖ Stock reductions based on current RTB legislation
- ❖ Re-lets at Target rents

Risks

- ❖ Interest rate changes between now and 26th March
- ❖ RPI to rent convergence 2015-16
- ❖ Inflationary pressures
- ❖ Changes in Government legislation e.g.
 - Reopening settlement
 - changing rent rebate subsidy limitation policy
 - further reductions in borrowing caps

The Robustness of the Estimates

11. Full account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and only income that has a high level of certainty of being received is included within the Council's budgets.

12. The Council's Financial Strategy, together with information presented at the Annual Finance Seminar and subsequent reports demonstrates the financial challenges to Waverley Borough Council and its Landlord Service in the future.
13. In addition to the detailed scrutiny by officers of the budget the Council has:
 - Critically examined Budget Variations; and
 - Established the Star Chamber to examine the budget in detail and advise on potential reductions.
14. In view of the level of awareness amongst Members and the action taken to produce the Council's Budget in 2012/13, the Deputy Chief Executive is satisfied with the robustness of the estimates presented.

Adequacy of Reserves

15. Adequate reserves are necessary to meet significant costs that could not reasonably have been foreseen in the preparation of the budget. The levels of the HRA working and Repairs Fund balances were reviewed by the Council's S151 officer during the 2012-13 budget process who considered it prudent to increase the minimum working balance to £1.75m.

Summary

16. The introduction of self-financing to the HRA in April 2012 will change fundamentally the way that local authority housing has been funded since 1989. Waverley will take on the responsibility for investing in its housing assets based on the 30-year business plan. Business planning is central to the new system for financial and service planning, monitoring progress and managing risk. Self-financing should enable tenants to make the link more directly between the rent they pay and the services they receive.
17. The detailed HRA revenue estimates appended to this report show the estimated impact of increasing rents at an average 5.9%.
18. The Executive

RECOMMENDS

- 13. the average actual rent level of Council dwellings be increased by 5.9% from 2nd April 2012;**
- 14. the weekly charge for garage rents at Wagon Yard, Farnham be increased by £2.50 week from 2nd April 2012 to reflect their location;**
- 15. the weekly charge for garages at Meadow, Latimer Road and Peperharow Road, Godalming; Hillhouse and Sunbrow,**

Haslemere be increased by £1.15 week from 2nd April 2012 to reflect the demand for garages in these areas;

- 16. the remaining garages rented by both Council and non-Council tenants be increased by 5.9% from 2nd April 2012; and**
- 17. the resultant HRA Revenue Budget for 2012/13 be approved which includes the above changes.**

Committees\council\2011-12\210212\07 HRA Rev A.4