

**WAVERLEY BOROUGH COUNCIL**  
**HOUSING OVERVIEW AND SCRUTINY COMMITTEE**

**14 JANUARY 2020**

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**Title:**

**HOUSING REVENUE ACCOUNT BUSINESS PLAN, REVENUE BUDGET AND  
CAPITAL PROGRAMME 2020/21**

**[Portfolio Holders: Cllrs Anne Marie Rosoman, Mark Merryweather]  
[Wards Affected: All]**

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**Summary and purpose:**

This report advises Members of the latest position regarding the Housing Revenue Account (HRA) for 2020/21, the updated 30-year Business Plan and seeks approval of the 2020/21 budget.

The Housing Overview and Scrutiny Committee is requested to consider the proposals identified within this report and make any observations for consideration by the Executive.

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**How this report relates to the Council's Corporate Priorities:**

Waverley's landlord service deals with the management and maintenance of existing council homes and delivering housing. The Corporate Strategy aims to maximise the availability of housing that meets the needs of local people at all income levels, and emphasises the value and worth of all residents. A viable business plan needs to be in place to aid delivery of these priorities.

**Equality and Diversity Implications:**

Providing more and better affordable housing for residents of the Borough in housing need, particularly the more vulnerable in our society.

**Resource/Value for Money Implications:**

Resource implications are contained throughout the report.

**Legal Implications:**

There are no direct legal implications as a result of this report. The Council must set a balanced HRA budget.

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## **Introduction**

1. This report outlines the draft budgets to be included within the annual review and update of the HRA 30 year Business Plan and the Budget for the year ahead, including the three-year Capital Programmes. The Business Plan is underpinned by the Council's Medium Term Financial Plan and provides the resources to fund the 30-year maintenance forecast and deliver proposals for building new affordable homes and investment in stock remodelling.
2. This report contains the following Annexes:
  - Annexe 1 – Revised HRA Business Plan - 2020/21 to 2023/24
  - Annexe 2 – Housing Fees and Charges
  - Annexe 3 – Capital Programme comprising
    - Housing Core Programme
    - New Affordable Homes Programme
    - Stock Remodelling Programme
  - Annexe 4 – HRA Reserves Summary

## **Business Plan**

3. The latest projection for the Business Plan for the four years commencing with 2020/21, is attached at Annexe 1. There has been rigorous scrutiny of HRA budgets throughout 2019 by officers and the Housing and Finance portfolio holders. The measures agreed by Council in 2017 balanced the Business Plan in the medium term following the major changes introduced by the Government affecting HRA finances.
4. The Government implemented major changes to HRA finances in 2016 with statutory annual rent reductions of 1% for four years. In February 2019 the Government announced that providers of social housing would be permitted to increase average weekly rents by September CPI plus 1% for the five years starting 1 April 2020. CPI in September 2019 was 1.7%
5. It is proposed that the maximum allowed rent increase in 2020/21 is approved in order to fund annual repairs, core maintenance programme and the new build and re-modelling capital programme and because of the cumulative effect on future rental streams on the HRA business plan.
6. Rental increases have a positive cumulative effect on the Business Plan as they affect the base rent from which all future rents are calculated. The Business Plan assumes that in 2020/21 to 2023/24 average rents are increased by the maximum allowable i.e. CPI + 1% for five years. In subsequent years, the Business Plan assumes rents will increase by CPI only and that CPI is 2%

7. The table below demonstrates the cumulative effect on rental streams applying three scenarios. It assumes for simplicity that the stock level remains the same throughout the 30 Year HRA Business Plan.
8. The three scenarios all assume the same rent assumptions from **2021/22** i.e. CPI 2% + 1% for four years and then CPI 2% only thereafter.
- Scenario One: 2.7% increase in 20/21 (Maximum allowed rent increase in 2020/21 i.e. CPI +1%)
  - Scenario Two: 0% increase in 2020/21
  - Scenario Three: 2% increase in 2020/21

Scenario	5 Year Rental Stream	Change effect	Base Average Rent in Year 5	30 Yr Rental Stream	30 Year Effect
Maximum allowed CP1 +1% for 5 years	£152,875,451	£0	£132.00	£1,211,535,926	£0
0% increase 20/21 and CPI only thereafter	£148,871,214	<b>-£4,004,237</b>	£128.55	£1,179,909,570	<b>-£31,626,356</b>
2% Increase 20/21 and CPI only thereafter	£151,834,497	<b>-£1,040,954</b>	£131.11	£1,203,426,792	<b>-£8,109,133</b>
Based on 4,769 opening stock and no changes to stock number					
CPI as at September 2019 i.e. 1.7% in 20/21. Assume 2% thereafter					

9. A 0% increase in 2020/21 results in lost rental income of £4m over five years and nearly £32m over 30 years compared to the proposed increase of 2.7%.
10. A 2% increase in 2020/21 results in lost rental income £1m over five years and £8m over 30 years.

## Rents

11. It is proposed that from April 2020/21 average weekly rents will be increased by 2.7% (CPI as at September 2019 was 1.7%). The updated 30 Year HRA Business Plan assumes CPI of 2% across all years and that rents will increase by the permitted CPI plus 1% i.e. 3% from 2021/22 to 2024/25.
12. The below table indicates the current average weekly rent and impact of an increase by 1.7%, 2% and 2.7% by number of bedrooms.

Bedroom no	Total Number 2019	Av 2019 Weekly Rent	Av Weekly Rent Plus 1.7% increase	Av of Weekly Rent Plus 2.0% increase	Av Weekly Rent Plus 2.7% increase
1	1816	£95.65	£97.28	£97.57	£98.24
2	1410	£114.53	£116.47	£116.82	£117.62
3	1504	£129.45	£131.65	£132.04	£132.95
4	30	£134.51	£136.79	£137.20	£138.14
5	1	£154.24	£156.86	£157.32	£158.40
6	2	£164.47	£167.27	£167.76	£168.91

13. The draft Housing Service Plan has an objective to work with tenants and the Tenants Panel to support the collection of increased rent in a sensitive and proactive way.
14. The garages project that started 2018/19 focused on reducing the percentage of void garages. This project has continued with the aim of letting void garages in a timely fashion. The focus in 20/21 will be letting the high demand low repair costs garage sites.
15. Following the 10% increase in garage rents during 2018/19, it was agreed by Council to freeze garage rents in 2019/20. Previous garage rent increases above CPI have led to increased voids. However, given the relatively low price elasticity of demand and the active focus on reducing voids, it is predicted that there will be minimal loss of garage tenancies. A list of high demand garages where there is a waiting list has been compiled.
16. It is proposed that weekly garage rents increase by 25 pence per week. Standard garage rent increases to £14.68 (£17.61 inc. VAT for private tenants)
17. There is potential to increase rents by 5% at three prime town centre garage sites, one of which is owned by the General Fund and two by the HRA.
18. Following price freezes for service charges and heating reimbursement in senior living during 2019/20, it is proposed that service charges in sheltered accommodation be increased 2.6% amounting to 50 pence per week bringing the new charge to £19.50 in 2020/21. It is proposed that the heating reimbursement charge be increased by 50 pence in line with previous energy increases. It is proposed that water charges will remain unchanged.

### **Fees and Charges**

19. A proposed schedule of charges for various services to leaseholders and shared owners is given in Annexe 2. The income from fees and charges are already included in the Business Plan. Members are no longer required to approve fees and charges following changes to the Financial Regulations agreed by Council in December 2019. Approval is now delegated under Financial Regulations.

### **Draft 2020/21 Capital Programme**

20. The draft Capital Programmes at Annexe 3 shows the proposals estimated to be spent in 2020/21 and the following years on each of the three elements to the capital programme.
21. The 30-year Business Plan also includes a programme to develop new affordable homes and a programme to remodel some of the existing stock. The major

regeneration project at Ockford Ridge will be a combination of redevelopment and remodelling existing dwellings.

22. The Housing Development Capital Programme Budget includes allocation for delivery of new affordable council homes for rent and shared ownership through the acquisition of property under Section 106 (s106) agreements. It is proposed that delegated authority be given to the Head of Housing Delivery and Communities, in consultation with Strategic Director (Chief Finance Officer) and Portfolio Holder for Finance, Assets and Commercial Services and Portfolio Holder for Housing & Community Safety, to allocate the S106 budget when opportunities arise to acquire new homes on developer sites. The Executive approved this delegation on 12 March 2019 for the 2019/20 budget.
23. The Council declared a Climate Change Emergency on 18 September 2019. At the Housing Overview and Scrutiny meeting on 20 November 2019 it was agreed that there was a need to review the Waverley Design Standards, approved in July 2018, to address the council's environmental and sustainability objectives and consider the financial implication of the proposed changes.

### **Financing**

24. The Business Plan has been modelled to use contingency reserves and surpluses arising from the annual Business Plan, subject to maintaining a minimum £2 million Working Balance. These drawdowns will be allocated to New Affordable Homes and The Core Maintenance Programme. It is proposed in 2019/20 to draw down £2.1m from the Working Balance Surplus for use on the Core Maintenance Programme. In 2022/23 £0.2m will be allocated from contingency to New Affordable Homes. In 2023/24 £1.0m will be allocated from contingency to New Affordable Homes.
25. The financial model in Waverley's HRA Business Plan incorporates the transfer to the HRA Revenue Reserve to support capital expenditure. Annexe 4 shows the Capital Programme proposals against the resources available in the next four years. The table at Annexe 4 shows that latest capital expenditure plans are affordable in the medium term.
26. In 2012 Waverley was required to take out £189m of borrowing (in addition to the existing £3m) to transfer the HRA to the new 'self-financing' basis. The HRA began making repayments of external debt principal in 2017/18. This is now scheduled to continue each year throughout the life of the Business Plan. The removal of the statutory debt cap in October 2018 has enabled the HRA to borrow to finance Capital expenditure if necessary. Whilst there is no need to borrow additional sums in the medium term as sufficient resources are available to meet the capital programme expenditure, a delegation is sought to enable borrowing to be undertaken, if needed and if the conditions are favourable, to ensure flexibility in the HRA business plan.

## **Local Government Act 2003 – Financial Administration**

27. The Local Government Act 2003 formally introduced a number of specific sections covering:
- a. Budget calculations: report on robustness of estimates;**
  - b. Adequacy of reserves; and**
  - c. Budget monitoring**

### **Robustness of Estimates**

28. 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.
29. The Council's Medium Term Financial Plan, together with information presented at the Annual Member Finance Briefings and subsequent reports demonstrate the financial challenges to Waverley Borough Council and Landlord Service in the future.
30. In view of the level of awareness amongst Members and the action taken to produce the Council's budget in 2020/21, the S.151 Officer is satisfied with the robustness of the estimates presented.

### **b) Adequacy of reserves**

31. Adequate reserves are necessary to meet significant cost that could not reasonably have been foreseen in the preparation of the budget. The levels of the HRA working and repairs fund balances have been reviewed and the working balance is at least £2m. Annexe 4 shows the schedule of HRA balances and reserves. Plans for investment of balances in existing and new build properties are being drawn up to ensure the reserves are fully utilised.

### **c) Budget Monitoring**

32. It is the view of Waverley's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring in 2019/20 shows that the HRA is staying within budget on capital and revenue overall.

## **Conclusion**

33. The team have completed a comprehensive review of the Housing Revenue Account and propose income stream increases, capital works, improvement and new build budgeted programmes and maintain healthy reserves to deliver the HRA Business Plan objectives

## **Draft Recommendations From Executive to Council**

The Executive, after considering comments from the Housing Overview and Scrutiny Committee, will be invited to make the following recommendations to the Council, that:

1. the rent level of Council dwellings be increased 2.7% from the 2019/20 level with effect from 1 April 2020 in accordance with The Government's permitted guidelines
2. the weekly charge for garages rented by both Council and non-Council tenants be increased by 25 pence per week excluding VAT from 1 April 2020;
3. the service charge in sheltered accommodation be increased by 50 pence per from 1 April 2020 to £19.50;
4. the recharge for energy costs in sheltered accommodation (as appropriate) be increased by 50 pence per week from 1 April 2020
5. the revised HRA Business Plan for 2020/21 to 2023/24 as set out at Annexe 1 be approved;
6. note the approval change for the fees and charges as set out in Annexe 2;
7. the Housing Revenue Account Capital Programmes as shown at Annexe 3 be approved;
8. the use of the Working Balance Reserve and Contingency Reserves to fund Capital Programmes
9. the financing of the capital programmes be approved in line with the resources shown in Annexe 3; and
10. authority be delegated to the Strategic Director and Head of Housing Operations in consultation with the Portfolio Holders for Housing and Finance to undertake external borrowing and/or internal borrowing and Reserve movement transactions (as shown in Annex 4) to ensure flexibility in HRA Business Plan resources to meet future capital expenditure needs.

## **Recommendation**

It is recommended that the Housing Overview and Scrutiny Committee consider the proposals set out in the report and makes any comments or observations to the Executive.

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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