

**WAVERLEY BOROUGH COUNCIL**

**EXECUTIVE**

**9 FEBRUARY 2021**

**Title:**

**Housing Revenue Account Business Plan –  
Revenue Budget and Capital Programme 2021/22**

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**Portfolio Holder(s):** Cllr Anne-Marie Rosoman, Portfolio Holder for Housing and Community Safety and Cllr Mark Merryweather, Portfolio Holder for Finance, Assets and Commercial Services

**Head of Service:** Hugh Wagstaff, Head of Housing Operations

**Key decision:** Yes

**Access:** Public

**1. Purpose and summary**

1. The is report sets out the proposed Housing Revenue Account (HRA) Business Plan, Revenue Budget and Capital Programme for 2021/22.

**2. Recommendation**

It is recommended that the Executive, after considering the comments from the Housing Overview and Scrutiny Committee, make the following recommendations to Council, that:

1. the rent level for Council dwellings be increased by 1.25% from the 20/21 level with effect from 1 April 2021 within the permitted guidelines contained within the Government's rent setting policy;
2. the average weekly charge for garages rented by both Council and non-Council tenants be increased by 50 pence per week excluding VAT from 1 April 2021;
3. the service charges in senior living accommodation be increased by 30 pence per week from 1 April 2021 to £19.80;
4. the recharge for energy costs in senior living accommodation be increased by 50 pence per week from 1 April 2021;
5. the revised HRA Business Plan for 2021/22 to 2024/25 as set out in Annexe 1 be approved;
6. the approval change for the fees and charges as set out in Annexe 2 is noted

7. the Housing Revenue Account Capital Programmes as shown in Annexe 3 be approved;
8. the financing of the capital programmes be approved in line with the resources shown in Annexe 4.

### **3. Reason for the recommendation**

In order to approve the use of reserves and resources to fund Waverley Borough Council's Landlord Services, the 30 year maintenance programme, deliver proposals for building new affordable homes and investment stock remodelling.

### **4. Background**

4.1 This report outlines the budgets to be included within the annual review and contains the update of the HRA 30 year Business Plan and the Budget for the year ahead, including the three-year Capital Programmes.

4.2 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.

4.3 On 10 November 2020 the Government published guidance on the operation of the Housing Revenue Account ring-fence. Although this new guidance replaces the former guidance, Circular 8/95, there are no new issues of principle. It does recognise that the landscape has changed with regard to the mix of ownership in Council estates. The guidance "highlights the need to be fair to both tenants and council tax payers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund".

### **Business Plan**

4.4 The latest projection for the Business Plan for the four years commencing 2021/22, is attached at Annexe 1. There has been rigorous scrutiny of HRA budgets throughout 2020 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 that affected HRA finances.

4.5 The Business Plan has been affected by the Covid-19 pandemic. There has been lower spend on the core programme and stock maintenance due to tenants isolating and lockdown measures. Dwellings rental income has been affected by slower turnarounds of void properties. However, this is now improving and is back to budget levels of 1% and the Business Plan assumes this will continue.

4.6 The budgets for 2021/22 assume levels of income and spend returning to that

expected in a normal year, not affected by the pandemic. During 2021/22, if the pandemic continues to affect the HRA, full year forecasts will be adjusted during budget monitoring and reported in monthly performance reports.

- 4.7 The Business Plan assumes modest growth in staffing levels to meet compliance legislation and housing development plans. Further information on this will be covered in Section 6.1 Resource.
- 4.8 The Government implemented major changes to HRA finances in 2016 with statutory annual rent reductions of 1% for four years. In 2019 the Government announced that providers of social housing would be permitted to increase average weekly rents by the previous September CPI (Consumer Price Index) plus additional 1% for five years from April 2020.
- 4.9 2021/22 will be the second of five years when the additional 1% is available. However, it is proposed to limit the additional percentage to 0.75% in recognition of the current economic situation. CPI has fallen during the last year as a result of Covid-19 related economic slowdown and was 0.5% in September 2020. This is 1.5% lower than the Bank of England target used in the HRA Business Plan and the Council's Medium Term Financial Plan.
- 4.10 The 2% CPI assumption has changed in the new HRA Business Plan for the years 22/23 (now 1.3%) and 23/24 (now 1.9%) in line with the General Fund revised assumptions that uses the OBR-central economic scenario published by HM Treasury in November 2020. From 24/25 CPI assumed to be 2%.
- 4.11 Although spend on the core programme and maintenance is lower in 2020/21 due to Covid-19, it is proposed to increase rents although less than the maximum permitted under Government rent policy published in February 2019 in order to fund the future new build and re-modelling capital programme that has continued throughout 2020/21.
- 4.12 Annual increases are also considered because of the cumulative effect on future rental streams on the HRA business plan as they affect the base rent from which all future rents are calculated. The Business Plan assumes that in 2022/23 to 2024/25 average rents are increased by the maximum allowable i.e. CPI +1% which equates to 2.3% in 22/23, 2.9% in 23/24 and 3% in 24/25. In subsequent years, the Business Plan assumes rents will increase by CPI only and that CPI is 2%.
- 4.13 The tables below demonstrate the cumulative effect on rental streams by applying three scenarios. It assumes for simplicity that the stock level remains the same throughout the 30 year HRA business Plan.
- 4.14 The three scenarios all assume the same rent assumptions from 2022/23 and is unchanged from the 2020/21 Business Plan calculation i.e. CPI + 1% until 2024/25 and then CPI 2% only thereafter.
- Scenario One: 1.5% increase in 2021/22 (max allowed i.e. CPI + 1%)

- Scenario Two: 1.25% increase in 2021/22
- Scenario Three: 0% increase in 2021/22

| Scenario                                | 5 Year Rental Stream £ms | Change effect £ms | Base Average Rent in Year 5 | 30 Yr Rental Stream £ms | 30 Year Effect £ms |
|---|--------------------------|-------------------|-----------------------------|-------------------------|--------------------|
| Maximum allowed CP1 +1% for 5 years     | £153.3                   | n.a               | £131.66                     | £1,205                  | n.a                |
| 1.25% Increase 21/22 then Business Plan | £152.9                   | -£0.377           | £131.34                     | £1,202                  | -£2.86             |
| 0% increase 21/22 then Business Plan    | £151.0                   | -£2.267           | £129.71                     | £1,187                  | -£17.88            |

Based on 4,750 opening stock and no changes to stock number

CPI as at September 2020 i.e. 0.5% in 21/22. Assume 1.3% (22/23), 1.9% (23/24), 2% thereafter

4.15 A 1.25% increase in 2021/22 results in less income, than would be received if the Council were to apply the maximum permitted by Government, of nearly £0.4m over five years and nearly £3m over 30 years compared to the maximum permitted increase of 1.5%

4.16 A 0% increase in 2021/22 results in less income, than would be received if the Council were to apply the maximum permitted by Government, of £2.3m over five years and nearly £18m over 30 years compared to the maximum permitted increase of 1.5%

4.17 The cumulative effect by year of a 0% rent change in 21/22 is shown below

Cumulative Effect £ms of 0% increase in 21/22

| Scenario                                 | 21/22  | 22/23  | 23/24  | 24/25  | 25/26  | Total 5 Years |
|--|--------|--------|--------|--------|--------|---------------|
| Maximum allowed CP1 +1% for 5 years      | £29.11 | £29.78 | £30.64 | £31.56 | £32.19 | £153.30       |
| 0% increase 21/22 then Business Plan     | £28.68 | £29.34 | £30.19 | £31.10 | £31.72 | £151.03       |
| Less Rental income than Government permi | -£0.43 | -£0.44 | -£0.45 | -£0.47 | -£0.48 | -£2.27        |

4.18 The proposed rent increase equates on average to £1.47 per week.

## Rents

4.19 It is proposed that from April 2021/22 average weekly rents will be increased by 1.25% (CPI as at September 2020 was 0.5%). The updated 30 year HRA Business Plan assumes CPI of 1.3% in 22/23, 1.9% in 23/24 and 2% across all years thereafter and that rents will increase by the permitted CPI plus 1% from 22/23 to 24/25 i.e. 2.3% in 22/23, 2.9% in 23/24, 3% in 24/25 and 2% thereafter.

4.20 The table below indicates the current average social housing weekly rent and impact of an increase by each of the scenarios i.e. 1.5%, 1.25%, 0%, by number of bedrooms.

| Bedroom | Total number 2020 | Average 2020 Weekly Rent | Average Weekly Rent plus 1.5% increase | Average Weekly Rent plus 1.25% increase | Average Weekly Rent plus 0.0% increase |
|---------|-------------------|--------------------------|--|---|--|
| 1       | 1810              | 106.24                   | 107.83                                 | 107.57                                  | 106.24                                 |
| 2       | 1410              | 120.61                   | 122.42                                 | 122.12                                  | 120.61                                 |
| 3       | 1499              | 135.44                   | 137.47                                 | 137.13                                  | 135.44                                 |
| 4       | 30                | 140.79                   | 142.90                                 | 142.55                                  | 140.79                                 |
| 5       | 1                 | 161.44                   | 163.86                                 | 163.46                                  | 161.44                                 |
| 6       | 2                 | 172.16                   | 174.74                                 | 174.31                                  | 172.16                                 |

4.21 The draft Housing Service Plan includes an objective to work with tenants and the Tenants Panel to support the collection of increased rent in a sensitive and proactive way.

4.22 The ongoing garages project aims to reduce the percentage of void garages and for them to be let in a timely manner. The focus for 2021/22 will be letting the high demand / low repair cost garage sites.

4.23 It is proposed that the weekly garage rents increase by 50 pence per week. Increased average standard rents will be £15.18 (£18.21 inc. VAT for private tenants).

4.24 It is proposed that service charges in the eight senior living schemes are increased by 30 pence per week bringing the new charge to £19.80 in 2021/22. In order to cost recover energy bills it is proposed that the heating reimbursement charge be increased by 50 pence per week in line with increases expected from the energy sector and expectations of the improved energy market during 2021/22.

## **Fees and Charges**

4.25 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, representing less than 0.25% of total income to the HRA p.a. The main source of the fees derive from repairs to leasehold buildings.

## **Draft 2021/22 Capital Programme**

4.26 The draft Capital Programmes at Annexe 3 shows the proposals estimated to be spent in 2021/22 and the following years on each of the three elements to the capital programme.

4.27 The draft core programme spend has been affected in 2020/21 by Covid-19 and contractor performance particularly with regard to vacancy staffing levels.

- 4.28 The effect of the pandemic and subsequent lockdown measures has been mentioned throughout this report and there is uncertainty about how this will affect programme delivery in 2021/22. In addition to this, contract management has proved to be somewhat challenging throughout this year. There are a number of key priorities for next year's core programme particularly around energy efficiency, compliance and works to the communal and wider estate.
- 4.29 There is continued drive towards increasing the energy efficiency of the Waverley stock, by raising all properties to an EPC rating of C or above. This will be achieved through a number of different measures including programmes targeting further PV installations, loft insulation and heating upgrades.
- 4.30 In terms of ensuring compliance, there will be a focus on addressing the priorities identified from the current Fire Risk Assessment survey and from the forthcoming procurement of a new 5 year electrical testing regime.
- 4.31 Work to improve communal and estate areas continues with an emphasis on developing a cohesive approach to delivering priorities. This will ensure that residents' needs are fully understood through the work of the Community Development Team. There will also be an emphasis on improving the data used to set priorities and programmes of work through a renewed stock condition survey exercise of the Waverley stock.
- 4.32 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 continues with the delivery of 37 new homes this year, a net gain of 17. A further two phases of the refurbishment and remodelling programme were completed at the end of the last financial year and a further phase which will include six homes are planned to be completed in 2021/22 budget year. Budget requests have been made for three further sites Site E, Ockford Ridge, Springfield, Elstead and Turners Mead and Chiddingfold. Other sites are coming forward and budget to undertake survey work has been identified for in the pre-development budget. Budgets for development sites include an allowance for enhanced energy efficiency measures to support delivery of the Council's aim to become carbon neutral by 2030.
- 4.33 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. Three further homes were delivered through acquisition under s106 agreement this year and expressions of interest have been made on four other sites which subject to approval will deliver 25 new homes.
- 4.34 The Council declared a Climate Change Emergency on 18 September 2019. At the Housing Overview and Scrutiny meeting on 20 November 2019 it was recommended to Executive 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**

4.35 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.

4.36 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.

4.37 In 2012 Waverley was required to take out £189m of borrowing 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 until repaid. In October 2018 the Government removed the borrowing cap for the HRA which had limited the total borrowing by an HRA-Council. The Council agreed not to borrow additional sums until rent increases were allowed again but noted that there is no need to borrow additional sums in the medium term as sufficient resources exist to meet projected capital needs. This position will be kept under review during 2021/22.

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

4.38 The Local Government Act 2003 formally introduced a number of specific sections covering:

- Budget calculations, report on robustness of estimates,
- Adequacy of reserves and
- Budget monitoring

4.39 **Robustness of Estimates** - 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.

4.40 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.

4.41 In view of the level of awareness amongst Members and the action taken to produce the Council's budget in 2021/22, the S.151 Officer is satisfied with the robustness of the estimates presented.

4.42 **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.

4.43 **Budget Monitoring** - 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 2020/21 shows that the HRA is staying within budget on capital and revenue overall.

## **Conclusion**

4.44 The team has completed a comprehensive review of the Housing Revenue Account and proposes income stream increases, capital works, improvements and new build budgeted programmes and the maintenance of healthy reserves to deliver the HRA Business Plan objectives.

## **5. Relationship to the Corporate Strategy and Service Plan**

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.

## **6. Implications of decision**

### **6.1 Resource (Finance, procurement, staffing, IT)**

Resource implications are contained throughout the report. There is proposed growth in staffing costs outlined below:

- In order to meet the increase in reportable compliance for gas, electrical and fire safety it is proposed that an additional Compliance Officer is recruited in addition to a data control officer.
- In recent years the scope and scale of matters under the umbrella of compliance has changed in accordance with building construction standards, the evolution of existing standards and well publicised tragedies.
  - The proposed new team structure is designed to focus individual officer time on specific areas of compliance rather than a broad spectrum.
  - Incremental budget cost is £68,000 pa.
  - The capital New Build programme over the next 5 years is expected to deliver 153 new homes with a net gain of 79 homes (excluding Right to Buy) with further homes delivered on developer sites through S106 agreements.

### **6.2 Risk management**



A risk assessment has been completed for the project and mitigations identified to be monitored by the Head of Housing Operations.

### **6.3 Legal**

There are no direct legal implications as a result of this report. The Council must set a balanced HRA budget and comply with all relevant legislation and guidance.

### **6.5 Climate emergency declaration**

6.5.1 New Build contribution to the Council's environmental and sustainability objectives. Work with consultants to develop climate positive design, developing carbon off-set opportunities in materials used. Consultant and contractor shortlisting / tender process supports the Council's ambition of being carbon neutral by 2030.

Tender criteria are used to enable the Council to take account of the qualitative, technical and sustainability aspects of the tender as well as price when evaluating and reaching a contract award decision.

6.5.2 Demolition contractors are required to operate in an environmentally responsible manner with a firm commitment to recycle and reclaim the maximum materials recovered during the demolition and dismantling process.

6.5.3 Our build contractor appointment includes an assessment of responses in relation to minimise the carbon impact on delivery of schemes with specific references to addressing their environmental impact, pre-construction activity, build and post construction phases and management of their supply chain. Contractors are now required to demonstrate areas of innovation the firm has developed and how it might introduce and work with the council, having regard to the council's current Design Standards and Employers Requirements to deliver energy efficient and sustainable homes for existing and future tenants.

6.5.4 The Waverley Borough Council Housing Design Standards and Specification is due to be reviewed by Housing Overview and Scrutiny Committee (Task and Finish Group) from January 2021. Areas to be considered are opportunities and methods of delivery of carbon neutral / Passivhaus homes and value for money.

6.5.5 Working with other teams to identify ways the delivery of the Council's new build and regeneration programme can support delivery of other elements of the Council's Climate Change and Sustainability Strategy and Strategic Carbon Neutrality Action Plan.

6.6.6 Sustainability and reducing carbon are central to the review of the Asset Management Strategy, Responsive Repairs contract and capital works programmes.

### **7. Consultation and engagement**

The Portfolio Holders and the Tenants Panel have been consulted on this paper prior to Housing Overview and Scrutiny committee. The Housing O&S Committee scrutinised the draft HRA Business Plan and budget at their meeting on 26 January and asked a number of questions of clarification. The Committee expressed some concern about the projected decrease in reserves and the impact this would have on the council's development programme, and the absence of any obvious consideration of the impact of the climate change declaration on the HRA budget.

## **8. Other options considered**

Alternative rent scenarios are included in the body of the report.

## **9. Governance journey**

Housing Overview and Scrutiny January 2021, Executive and Council  
February 2021.

## **Annexes:**

Annexe 1.0 – HRA Business Plan 2021/22 to 2024/25

Annexe 2.0 – Housing Services Schedule of fees and charges 2021/22

Annexe 3.1 – HRA Core Programme 2021/22

Annexe 3.2 – HRA Housing Development Capital Programme 2021/22 to 2024/25

Annexe 4.0 – HRA Reserves 2021/22 to 2024/25

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## **Background Papers**

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

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Agreed and signed off by:

Legal Services: 7 December 2020

Strategic Director: 15 January 2021

Portfolio Holder: 7 December 2020