WAVERLEY BOROUGH COUNCIL

LANDLORD SERVICES ADVISORY BOARD

28 JANUARY 2022

Title:

Housing Revenue Account Business Plan – Revenue Budget and Capital Programme 2022/23

Portfolio Holder(s): Co-Portfolio Holders for Housing Paul Rivers and Nick Palmer

Head of Service: Hugh Wagstaff, Head of Housing Operations

Key decision: Yes

Access: Public

1. Purpose and summary

The purpose of the report is for the Landlord Services Advisory Board to scrutinise the draft Housing Revenue Account Business Plan – Revenue Budget and Capital programme 2022/23 and pass comments to the Executive ahead of its meeting on 8 February.

2. Recommendation

It is recommended that the Landlord Services Advisory Board make comments to the Executive on the proposed recommendations that:

i the rent level for Council dwellings be increased by a maximum of 4.10% from the 2021/22 level with effect from 1 April 2022 within the permitted guidelines contained within the Government's rent setting policy;

ii 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 2022;

iii the service charges in senior living accommodation be increased by 30 pence per week from 1 April 2022 to £20.10;

iv the recharge for energy costs in senior living accommodation be increased by 50 pence per week from 1 April 2022;

v the revised HRA Business Plan for 2022/23 to 2025/26 as set out in Annexe 1 be approved;

vi the fees and charges as set out in Annexe 2 be approved:

vii the Housing Revenue Account Capital Programmes as shown in Annexe 3 and Annexe 4 be approved;

viii the financing of the capital programmes be approved in line with the resources shown in Annexe 5: and

ix a strategic review will be undertaken on the 30-year HRA Business Plan in line with the content of this report during 2022/23.

3. Reason for the recommendation

To provide the resources to fund Waverley Borough Council's Landlord Services management operations, maintenance programme and building new affordable homes.

4. Background

4.1 This report outlines the annual update of the self-financing and financial sustainability review of the HRA 30-year Business Plan, the Revenue Budget for 2022/23 including the Capital and New Build Programmes.

Business Plan Summary

4.2 The HRA is a separate account for the landlord costs and income for council dwellings, which is ringfenced as per statue. The Business Plan sets out the financial plan for this HRA account, consisting of income, mainly from rent, and the operational and financing costs of managing and developing the housing stock to meet the Council's obligations to its housing tenants. The latest projection for the Business Plan for the four years commencing 2022/23, is attached at Annexe 1.

4.3 In 2012 the Council was required by central government to take out a mortgage to buy out of the national rent subsidy system and become a wholly self-financing landlord account. A 30-year business plan was set in 2012/13 to support the self-financing and repay that debt over a period of 25 years, with principal repayments beginning in year six (2017/18). This enabled a build-up of reserves to start a Stock Remodelling budget and a New Affordable Homes building programme to support the replacement of stock lost through Right to Buy and meet the growing demand for affordable housing in the borough.

4.4 The 30-year Business Plan assumed that operating costs would remain stable with the primary risk being the ability to match cost base inflation with rent increases. This assumption enabled the provision of significant funding to support an ambitious new build and stock maintenance programme whilst mitigating the risk of any financial impact resulting from moderate shocks such as an emerging stock condition/maintenance/contractor issue if one was to arise.

4.5 Since the strategy in the Business Plan was set in 2012 the government has changed its rent policy initially by reducing rents by a real 1% each year for four years from 2016 and then allowing an average weekly rent increase but capped at previous September CPI plus 1% for five years from April 2020. Projecting forward, the rent reduction had a significant negative impact on the funding assumed in the original Business Plan, specifically the long-term new build programme. Recognising this impact, the government has lifted the borrowing cap (limited to the buy-out debt value £193 million) on the HRA to encourage and accelerate a new home building programme.

4.6 The Business Plan has also seen disruption due to the Covid 19 pandemic, contractor issues and global supply chain shortages driving up inflation. The effect of these can be seen in the expenditure section of the Business Plan, and specifically the significant increase in the responsive maintenance and the core capital programme in 2022/23 onwards and increased tender costs in the new build programme schemes.

4.7 The net effect of these changes has resulted in a drawdown of the working balance from 2022/23 onwards to support the housing operation. Beyond 2025/26 this draw down is clearly not sustainable and will require a strategic review of the Business Plan during 2022/23 to rebalance priorities and strategies to address stock maintenance, climate emergency and new build requirements and aspirations. The Council adopted new Design Standards in July 2021 to develop new council homes that are low carbon in operation and the Council is developing an Asset Management Strategy to help ensure homes are kept to a good standard and to improve the energy efficiency of current homes thus cutting carbon emissions.

4.8 Within the current Business Plan, in the longer term beyond 2035, the mortgage will be fully repaid freeing up significant funding. This funding is required now to meet current demands and corporate priorities and the challenge for the strategic review of the current Business Plan is to identify where it is appropriate to support spending/investment plans with borrowing to free up revenue and avoid creating a long-term debt trap legacy.

4.9 The revised Business Plan will need to be informed by a full stock condition survey; the Business Plan includes £300,000 within the Core Capital programme (Annexe 3) to expedite the survey. In line with the revised Capital and Asset Investment Strategies, the scope of the stock condition survey will include a strategic review of stock to assist with identifying stock appropriate for regeneration under the new build programme rather than major component replacement and retrofitting of carbon neutral systems. This will enable the climate change carbon neutral considerations to be incorporated with an appropriate mix of regeneration, new build on council owned land and retrofit. Once further information on requirements and energy efficiency works delivery plans are in place, budgets will be reintroduced in future years.

4.10 A long-term new build programme that relies entirely upon reserve funding is challenging within the current business plan. To alleviate the reserve pressures, a financial viability review of the current schemes in progress (Annexe 4) will be appropriate to identify where borrowing can be utilised to free up the committed New Homes reserves (currently £31.9 million). In addition to stock regeneration, a longer-term programme will require a strategy including land banking funded from reserves and grants and rely upon borrowing to fund the build out. This recognises that a significant proportion of the cost of new build is the land. Affordable rents present financial viability challenges to cover the cost of borrowing, management, and maintenance when the cost of land as well as the build costs are debt funded net of available capital receipts and grants. The new build strategy will also need to consider development of mixed-use affordable rent schemes to cross subsidise, to ensure new homes are genuinely affordable to those in housing need. Careful consideration and attention will have to be given to the Affordable Homes Delivery Strategy cap on Affordable rent impact on financial viability where borrowing is being considered, particularly when the cost of borrowing is expected to increase in the medium to long term.

4.11 The working balance draw down in the Business Plan has been mitigated by the removal of the New Build (affordable housing) contributions. The current programme is adequately funded from the current New Build reserve balance and the Capital Receipts reserve (Annexe 4). The 5-year rent cap increase will also help to minimise the impact of the draw down of the working balance over the next four years, although the Business Plan includes a total 3% per year increase assumption from 2023/24. Mitigation of inflationary pressures is key to ensuring the resources remain adequate.

Revenue Budget

4.12 The Net Dwelling Rent income in Annexe 1 has been marginally impacted by the Covid-19 pandemic with rent arrears increasing in total value by c.£50k since the beginning of the pandemic and remains below the 1% (of £30 million) assumed level of arrears factored into the Business Plan. The 2021/22 net dwelling rent forecast in Annexe 1 includes a budget correction (for void and Right to Buy assumptions) which masks the true performance. Detailed monitoring of the rent collection statistics reported in the quarterly Corporate Performance Report shows that the number of tenants with arrears has not significantly increased and not in proportion to the increase in number of tenants seeking rent support through Universal Credit and Housing Benefit.

4.13 The table below shows the rent collection position as of December 2021 compared to December 2020, the number of tenants in arrears has increased by 39 with a total value of £32k.

Data as at:	**December 2021**		**December 2020**		**Change**	
	#	£ value	#	£ value	#	£ value
Occupied Properties	4,752	29,156,900	4,744	28,565,701	8	591,199

Paying in advance	3,804	884,894	3,835	827,322	(31)	57,572
In arrears	**948**	**288,378**	**909**	**256,354**	**39**	**32,024**

4.14 The majority of the 948 cases in arrears are in effect tenants who pay weekly/monthly in arrears, as can be seen in the table below shaded yellow and the average arrears equate to a week's rent. The fact that these arrears are in a steady state indicates that they are predominantly reflecting tenants monthly cash flow cycle and not indicative of financial hardship.

Arrears as of Sunday 5 December 2021				
Bandings (£)	No. of cases in arrears	Value of debt (£)	% of arrears cases	Average arrears £
0.01 – 100.00	507	17,573	53.48	35
101.00 – 250.00	147	24,686	15.51	168
251.00 – 500.00	145	50,952	15.3	351
500.00 – 1,000.00	98	69,533	10.33	710
1,000.00 – 2,000.00	37	54,721	3.9	1,479
2,000.00 – 3,000.00	4	9,865	0.42	2,466
3,000.00 +	10	61,047	1.05	6,105
Totals	**948**	**288,378**		

4.15 The number of tenants claiming Universal Credit(UC) has increased since March 2020 from 454 to 1,077 in December 2021, an increase of 623. Of the total UC claimants 736 are paying rent in advance of due date (£220,563) and 341 are in arrears (part of the 948 in the table above) as can be seen in the table below. Rent received from tenants claiming UC tends to be timed to coincide with their receipt of UC payment and not aligned to the rent due dates, as indicated by the significant number of rent receipts in advance of due date, therefore payment timings will contribute to the arrears picture.

Universal Credit arrears as of Sunday 5 December 2021				
Bandings	**No. of arrears cases**	**Value of debt (£)**	**% of UC arrears cases**	**Average arrears £**
£0.01 – £100	95	4,437	27.86	47
£100.01 - £250	72	11,886	21.11	165
250.01 - £500	85	30,342	24.93	357
£500.01 - £1000	54	39,749	15.84	736
£1000.01 - £2000	26	38,980	7.62	1,499
£2000.01 - £3000	3	7,356	0.88	2,452
£3000.1 and over	6	27,716	1.76	4,619
Total	341	**160,465**		

4.16 The financial performance of the rent income collection reflects the success of the Rents Team working with tenants to prepare for changes in income as the safety net of furlough came to an end and universal credit (UC) uplifts were removed in September. There is capacity and skill within the team to monitor all channels of hardship information within the tenant base, including access to food banks and support agencies. The team have been reaching out proactively to tenants to encourage and assist them to access and seek all appropriate assistance at an early stage, including council tax support.

4.17 In addition to the impact of Covid 19 on tenants' income the increase in inflation, cost of living, cost of energy and fuel has become an added pressure. The business plan now includes a hardship fund for 2022/23 to assist with mitigating the impact of the necessary rent increase. One use of the hardship fund will be to bridge the gap in rent arrears during the UC waiting period where there is financial hardship and tenant engagement and assist where tenants are out of reach of rent assistance. It is difficult to predict the demand on the Hardship Fund and therefore it will be monitored closely during the year to enable an adjustment as soon as necessary.

4.18 Expenditure budgets over the last two years have been significantly impacted by the pandemic and contractor issues. There has been lower spend on the core programme and stock maintenance due to tenants isolating and work from home restrictions. Lockdown measures also initially resulted in a slower turnaround of void properties and maintenance budgets were diverted to expedite planned works in void properties. The void situation has now improved back towards the budgeted level of 1% and the Business Plan assumes this will continue.

Rents

4.19 The government has allowed an average weekly rent increase capped at previous September CPI plus 1% for 5 years from April 2020. Financial year 2022/23 will be the third of five years when the additional 1% is available as an option. Being mindful of the additional cost burden a rent increase has on tenants, the Council also has a responsibility to ensure the landlord account is financial sustainable and that an appropriate level of capital investment is made in existing and new stock, therefore, it is proposed that from April 2022/23 average weekly rents will be increased by 4.1% (CPI as of September 2021 was 3.1%).

4.20 The Business Plan assumes that CPI will settle down and rents will increase by 3% in 2024/25 onward. It is important to note that 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 rent strategy will be reviewed in detail next year as part of the strategic review.

4.21 The table below shows the impact of uplifting rents by 1%, 3% and the proposed 4.10%. The proposed rent increase at 4.10% equates on average to £1.61 per week.

Rent Increase:	1%	3%	4.10%
2021-22 Forecast outturn	29,156,900	29,156,900	29,156,900
Less: Shared ownership	202,376	202,376	202,376
2021-22 Rent Roll (excluding Shared ownership)	28,954,524	28,954,524	28,954,524
Less: RTBs /Demolitions: net loss of 35 units	213,844	213,844	213,844
Rent Roll adjusted for RTBs /Demolitions	28,740,680	28,740,680	28,740,680
Rent Increase 1%, 3%, 4.1%	**287,407**	**862,220**	**1,178,368**
Rent Roll including rent increase	29,028,086	29,602,900	29,919,048
Add: Reverting to 1% voids from 1.33%	95,793	97,690	98,733
Add: Shared ownership	202,376	202,376	202,376
2022-23 Dwelling income budget	**29,326,255**	**29,902,966**	**30,220,156**
2021-22 Dwelling income forecast	29,156,900	29,156,900	29,156,900
Increase from 2021-22 budget	**169,355**	**746,066**	**1,063,256**

4.22 The table below indicates the current average social housing weekly rent and impact of an increase by each of the scenarios i.e. 1%, 3%, 4.10%, by number of bedrooms.

Bedrooms	Average 2021 Weekly Rent	Average 2021 Weekly Rent plus 1%	Average 2021 Weekly Rent plus 3%	Average 2021 Weekly Rent plus 4.1%
		1%	3%	4.10%
1	101.6	102.62	104.65	105.77
2	121.33	122.54	124.97	126.30
3	137.18	138.55	141.30	142.80
4	150.48	151.98	154.99	156.65
5	163.46	165.09	168.36	170.16
6	174.31	176.05	179.54	181.46

4.23 It is proposed that the weekly garage rents increase by 50 pence per week. Increased average standard rents will be £15.68 (£18.82 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 £20.10 in 2022/23. 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 during 2022/23.

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, Other Income line, representing less than 0.25% of total income to the HRA p.a. The main source of the fees derives from repairs to leasehold buildings.

Draft 2022/23 Capital Programme

4.26 The draft Capital Programmes at Annexe 3 shows the proposals estimated to be spent in 2022/23 and the following years on both of the two elements to the capital programme. Last year it was identified that there is a need to improve the data used to set priorities and programmes of work through a renewed stock condition survey. The proposed capital programme schedule will be realigned to emerging priorities identified from the revised stock condition survey and strategic review of the Business Plan.

4.27 The effect of the pandemic and subsequent lockdown measures has been mentioned already in this report and there is uncertainty about how this will affect programme delivery in 2022/23. In addition to this, contract management has proved to be somewhat challenging throughout this year.

4.28 There is a continued drive towards increasing energy efficiency through several different measures including programmes targeting further solar PV installations, loft insulation and heating upgrades.

4.29 In terms of ensuring compliance, there will be a focus on addressing the priorities identified from the current Fire Risk Assessment surveys and moving from a 10 year to a 5-year electrical testing regime.

4.30 The Business Plan includes a programme to develop and also acquire new affordable homes under Section 106 (s106) agreements. A full list of approved schemes currently underway and the total funding commitment is included on Annexe 4-New Build Programme. There is currently £31.9 million of committed schemes in progress and several schemes being worked up within the Pre-development Expenditure budget that will be brought forward at the appropriate time in line with the governance requirements of the revised Capital and Asset Investment Strategies. The current inflationary environment is impacting upon the new build programme's committed schemes where works tender returns are indicating significant cost pressures. Cost pressures outside of existing contingencies will trigger project viability reappraisal and identify appropriate mitigations and authority before proceeding, in line with the Capital Strategy governance requirements.

4.31 Annexe 4 also includes within the Stock Remodelling section a proposed retrofit pilot of 7 existing homes. The intention of the pilot is to learn how to retrofit properties to achieve an EPC A or near A-rating, This will involve a range of measures which include removal of fossil fuelled gas boilers, the use of renewable energy sources (air source heat pumps and PV's) and reduction of the overall heat demand through the provision of external insulation, internal floor and roof insulation and modern A+ rated double glazed windows. The retrofit will also include some internal reconfiguration, provision of a new kitchen and bathroom and electric vehicle charging point where properties have off-street parking.

4.32 Annexe 3 - HRA Core Programme includes a budget if £1m for Wyatts Close, which consists of 32 one bed bungalows where Waverley is the leaseholder of the land. These leases are close to expiring and to secure the long-term future for the current tenants, a legal process to enfranchise and acquire the freehold titles for these properties is in progress. The budget is estimated based upon the cost of acquiring the freehold based on a current estimated valuation and the related specialist legal advice/costs.

4.33 Right to Buy receipts can currently fund no more than 40% of the cost of a replacement home (whether through acquisition or new build) within 3 years of receipt and the council must find additional funding for the remaining 60%. The time limited restricted receipts forecast over the next four years are shown on annexe 4: Restricted 1-4-1 RTB – 3-year limit. To avoid clawback the 2025/26 balance equates to £8m gross expenditure. The strategic review will include a 'RTB clawback avoidance plan' –projecting 5 years ahead showing how much spend is required to avoid clawback and how this compares to the capital programme, with sensitivity analysis showing how slippage and or higher numbers of RTBs could put this at risk.

Local Government Act 2003 – Financial Administration

4.34 The Local Government Act 2003 formally introduced several specific sections covering:

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

4.35 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.

4.36 The Council's HRA Business 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.

4.37 In view of the level of awareness amongst Members and the action taken to produce the Council's budget in 2022/23, the S.151 Officer is satisfied with the robustness of the estimates presented.

4.38 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 5 shows the schedule of HRA balances and reserves. A full strategic review of the business Plan will be undertaken during 2022/23 in line with information within this report.

4.39 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 2021/22 shows that the HRA is staying within budget on capital and revenue overall.

Conclusion

4.40 The team has completed a comprehensive annual 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)

All decisions made with regard to the budget will impact on Waverley's resources.

6.2 Risk management

Risks inherent with the delivery of a sustainable Business Plan have been identified along with appropriate solutions within the report.

6.3 Legal

Section 24 of the Housing Act 1985 provides that a local authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Council must review rents from time to time and make such charges as circumstances require.

Under Section 74 of the Local Government and Housing Act 1989, the Council is obliged to maintain a separate Housing Revenue Account and by Section 76 must prevent a debit balance on that account. Rents must therefore be set to avoid such a debit and the Council must set a balanced HRA budget.

6.5 Climate emergency declaration

6.5.1 The New Build contribution to the Council's environmental and sustainability objectives includes working with consultants to develop climate positive design and developing carbon off-set opportunities in materials used in construction

6.5.2 The 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.

6.5.3 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.

6.5.4 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.

6.5.5 Contractors are required to demonstrate areas of innovation that they have developed, or suggest products and advise how they might be used in projects delivered 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

6.5.6 The Waverley Borough Council Housing Design Standards were reviewed by the Housing Overview and Scrutiny Working Group and the resulting recommendations were formally adopted by the Executive in September 2021. The focus of the review was on opportunities and methods of delivery of carbon neutral / Passivhaus homes and value for money.

6.5.7 The development team work 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.

6.5.8Sustainability 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 Landlord Services Advisory Board have been consulted on this paper prior to Policy Overview and Scrutiny committee. The Policy Overview and Scrutiny Committee will scrutinise the draft HRA Business Plan and budget at their meeting on 24 January.

8.Other options considered

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

9.Governance journey

Landlord Services Advisory Board on 10 January and Policy Overview and Scrutiny 25 January 2022, Executive and Council 22 February 2022.

Annexes:

Annexe 1 – HRA Business Plan 2022/23 to 2025/26
Annexe 2 – Housing Services Schedule of fees and charges 2022/23
Annexe 3 – HRA Core Programme 2022/23 to 2025/26
Annexe 4 – HRA Housing Development Capital Programme 2022/23 to 2025/26
Annexe 5 – HRA Reserves 2022/23 to 2025/26

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: 13 January 2022
Strategic Director: 14 January 2022