

WAVERLEY BOROUGH COUNCIL

RESOURCES OVERVIEW & SCRUTINY COMMITTEE

23 JANUARY 2023

EXECUTIVE

7 FEBRUARY 2023

COUNCIL

21 FEBRUARY 2023

Title:

**Housing Revenue Account Business Plan –
Revenue Budget and Capital Programme 2023/24**

Portfolio Holder(s): Cllr Nick Palmer, Co-Portfolio Holder for Housing (Delivery)
Cllr Paul Rivers, Co-Portfolio Holder for Housing (Operations)
Cllr Mark Merryweather, Portfolio Holder for Finance, Assets
and Commercial Services

Head of Service: Peter Vickers, Executive Head of Finance
Andrew Smith, Executive Head of Housing

Key decision: Yes

Access: Public

1. Purpose and summary

This report sets out the proposed Housing Revenue Account (HRA) Business Plan, Revenue Budget and Capital Programme for 2023/24.

This report contains the following Annexes:

- Annexe 1 – HRA 30 Year Business Plan 2023/24 to 52/53
- Annexe 2 – HRA Business Plan Movements 2023/24
- Annexe 3 – HRA Key Budget Variances 2023/24
- Annexe 4 – HRA Fees & Charges
- Annexe 5 – HRA Capital Programme
- Annexe 6 – Housing Delivery Programme
- Annexe 7 – HRA Reserves Statement
- Annexe 8 – HRA Contracts over £100k

2. Recommendation

It is recommended that the Board consider the proposed recommendations to the Council and advise the Co-Portfolio Holder of Housing and Executive of their comments and any suggestions.

It is recommended that the Executive, after considering the comments from the Landlord Service Advisory Board and Resources Overview and Scrutiny Committee, make the following recommendations to Council, that:

1. the rent level for Council dwellings be increased by up to 4% from the 2022/23 level with effect from 1 April 2023 within the permitted guidelines contained within the Government's rent setting policy;
2. the service charges in senior living accommodation be increased by 4% per week from 1 April 2023 to £20.90;
3. the recharge for energy costs in HRA properties be increased by 4% per week from 1 April 2023;
4. the revised HRA Business Plan for 2023/24 to 2053/54 as set out in Annexe 1 be approved;
5. the approval change for the fees and charges as set out in Annexe 4 is noted
6. the Housing Revenue Account Capital Programmes as shown in Annexe 5 and Annexe 6 be approved; and,
7. the financing of the capital programmes be approved in line with the resources shown in Annexe 7.
8. to deliver the works identified in the maintenance budgets it is recommended that authority is delegated to the Executive Head of Housing, in consultation with the s151 Officer, to procure and enter contracts valued over £100,000 shown in Annexe 8

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 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 Capital Programmes.

4.2 The Business Plan underpins the Corporate Plan objectives and provides the resources to fund the 30-year maintenance forecast and deliver proposals for building new affordable homes and 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”.

4.4 Officers undertook a Strategic Review of the HRA Business Plan during the 2022/23 financial year which was approved by Full Council in December 2022. The approach set out in the Strategic Review underpins the budget presented in this report.

5. Business Plan

5.1 The latest projection for the Business Plan for the thirty years commencing 2023/24, is attached at Annexe 1. There has been rigorous scrutiny of HRA budgets and the business plan assumptions during 2022/23 by officers and the Housing and Finance portfolio holders.

5.2 The Business Plan has been affected by the Covid-19 pandemic over the last three years. During the height of the pandemic, there was lower spend on the capital programme and stock maintenance due to tenants isolating and lockdown measures. Dwellings rental income was affected by slower turnarounds of void properties. Void rent loss in 20/21 was £678k, in 21/22 this dropped down to £412k and we expect this to drop further to £384k for 22/23. The void level has now improved back towards the budgeted level of 1% and the Business Plan assumes this rate will continue.

5.3 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.

5.4 The rent cap for 2023/24 was therefore due to be 11.1% (September CPI 10.1% +1%), in light of the economic conditions and unusually high inflation, the government has issued a rent cap for social housing of 7% for this financial year. However, it is proposed to limit the additional percentage to 4% in recognition of the current economic situation to help protect tenants.

5.5 The assumption for rent for 2024/25 is kept and 4% and then returning to September CPI plus the additional 1% from 2025/26 onwards. However, this remains subject to government policy and the current rent standard is a 5-year settlement for which the final year is 2024/25. The Rent Standard is a standard that the Regulator of Social Housing expects registered providers to comply with. It sets the requirements around how registered providers set and increase rents for all their social housing stock. The standard currently allows for rent increases of CPI+1% each year. This could change when the rent standard is reviewed for 2025/26 and any reduction in the allowable rent increase would majorly impact the HRA Business Plan.

5.6 The 2% CPI assumption has changed in the new HRA Business Plan for the years 23/24 (now 9%) and 24/25 (now 4%) in line with the General Fund revised assumptions. The 2023/24 assumption uses the OBR-central economic scenario

published by HM Treasury in November 2022. The 2024/25 then begins to gradually return to a lower rate and from 25/26 CPI is assumed to be 2% which is the governments target rate for inflation. The interest rate assumptions used will continue to be monitored and reviewed during 2023/24.

5.7 In terms of the staff pay award for 2023/24, which is also applied to Councillors' allowances, the Joint Negotiating Committee (JNC) has not yet agreed the pay claim submitted by the Union in December. An indicative amount for pay inflation, as well as other inflation commitments, are incorporated within the draft balanced budget. If the matter is resolved before the Executive meeting in February, the budget will be revised and, in recommending the draft Budget to Council, the Executive would be approving the pay award (Constitution Part 3: 3(o)).

6. Rents

6.1 It is proposed that from April 2023/24 rents will be increased by 4%.

6.2 The table below indicates the current average housing weekly rent and impact of an increase by 1%, 4% and 7%.

Bedroom	Total number 22/23	Average weekly rent 22/23	Average Weekly rent + 1%	Average Weekly rent + 4%	Average Weekly rent + 7%
1	1847	104.44	105.48	108.62	111.75
2	1405	124.87	126.12	129.86	133.61
3	1513	140.76	142.17	146.39	150.61
4	35	154.24	155.78	160.41	165.04
5	1	168.09	169.77	174.81	179.86
6	1	179.43	181.22	186.61	191.99

6.3 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.

6.4 A hardship fund of £30k was introduced in the 2022/23 budget to assist with mitigating the impact of the necessary rent increase. There have been low numbers of applications to the fund during the year and the £30k provided remains sufficient. It is proposed that this fund continues in 2023/24.

6.5 It is proposed that service charges in the eight senior living schemes are increased by 4% per week bringing the new charge to £20.90 in 2023/24 and heating reimbursement charge for HRA dwellings be increased by 4% per week in line with the proposed rent increase.

6.6 A full service charge review will be undertaken in 2023/24 to ensure recovery of costs is achieved. Delaying this review until the new financial year when there is more clarity regarding energy support will hopefully protect residents from unnecessary uncertainty and adjustments.

6.7 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.

- Scenario One: 1% increase in 2023/24
- Scenario Two: 4% increase in 2023/24
- Scenario Three: 7% increase in 2023/24

Business Plan impact - Rent increases

% Increase	1%	4%	7%
Additional income 23/24	-169,925	-1,073,859	-1,977,792
Impact across 30 year business plan	-14,386,717	-57,546,868	-100,707,019

The above figures are calculated from the revised dwelling base for 23/24 which takes into account assumptions for right to buy sales, new build and demolitions during the year.

6.8 A 4% increase in 2023/24 results in less income, than would be received if the Council were to apply the maximum permitted by Government (7%), of £0.9m in 23/24 and around £43m over 30 years.

6.9 A 1% increase in 2023/24 results in less income, than would be received if the Council were to apply the maximum permitted by Government (7%), of £1.8m in 23/24 and around £86m over 30 years

6.10 The level of rent increase also has an impact on the level of additional borrowing required. If an increase of 1% was applied, then the additional borrowing requirement would be around £40m over the next 13 years compared to £26m over the next 12 years when 4% is applied.

6.11 The proposed rent increase of 4% equates on average to £4.89 per week.

7. Fees and Charges

A proposed schedule of charges for various services to leaseholders and shared owners is given in Annexe 4. The income from fees and charges are already included in the Business Plan, representing less than 0.05% of total income to the HRA p.a.

8. Draft 2023/24 Capital Programme

8.1 The draft Capital Programmes at Annexes 5 and 6 show the proposals estimated to be spent in 2023/24 and the following years on each of the elements to the capital programme.

8.2 Programme delivery for the capital programme was slightly delayed in 2022/23 due to the need to procure and appoint new contractors but now all the main projects now have contractors in place for the current and the new financial year. The focus of the programme continues to be making our homes safe and warm.

8.3 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.

8.4 The heating upgrades budget within capital programme budgets increases up to circa £1m per year for six years. These are programmed upgrades where a high number of boilers are due renewal.

8.5 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 5 year electrical testing regime.

8.6 A stock condition survey is currently going through the procurement process which will be undertaken as a rolling programme over the next two year. This will drive the future capital programme, therefore budgets for 2024/25 and future years is currently indicative until detailed information is known. The budget for carrying out these stock surveys is included in the 2023/24 capital programme.

8.7 The 30- Year Business Plan also includes a programme to develop new affordable homes and a programme to remodel some of the existing stock. Council gave approved in December 2022 for a number of schemes, including Ockford Ridge Site C, due to deliver a total of 74 new homes, with a net gain of 45, for which their budgets are profiled across a number of years as show in *Annexe 6*.

8.8 Other sites are coming forward and budget to undertake survey and feasibility work has been identified in the pre-development budget. New governance arrangements are now in place, in line with the capital strategy, for the use of this budget, where Housing Delivery Board will be briefed on the projects coming forward and will agree appropriate sites and priorities for the use of this budget.

8.9 Budgets for development sites include an allowance for enhanced energy efficiency measures to support delivery of the Councils aim to become carbon neutral by 2030.

8.10 Included in Annexe 8 are a list of contracts due to be procured in 2023/24. The totals included represent the contract total across years and are not limited to 2023/24 values. The budgets for these contracts are contained within both the Capital Programme budget and within the Revenue budget. To support the procurement, award and undertaking of works it recommended that delegation is given to the Executive Head of Housing, in consultation with the s151 Officer, to procure and enter into these contracts valued over £100,000. There are some larger scale procurements due during 2023 such as the Heating Upgrade and Maintenance contract at £14m and Fire Safety Works contract at £4m. Due to their large value these contracts have not been included in Annexe 8 and will come separately to committee for approval during the year.

9. Financing

9.1 The Business Plan has been modelled to use reserves and surpluses arising from the annual Business Plan, subject to maintaining a minimum £2 million Working Balance.

9.2 The financial model in Waverley's HRA Business Plan incorporates the transfer to the HRA major repairs reserve to support capital expenditure. Annexe 5 shows the Capital Programme proposals against the resources available in the next 10 years.

9.3 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 borrowing at £192m.

9.4 The original business plan was set to repay the borrowing over the next 18 years, due to complete in 2040/41. Due to subsequent changes in government rent policy and recent economic shocks, the plan to be debt free is no longer achievable in this timeframe, without the need for additional borrowing, as annual rent income is not sufficient to cover the debt repayment and maintenance of council dwellings. The council changed its strategy regarding debt in the HRA strategic review as agreed by full Council in December 2022 to free up rent income to fund housing maintenance and the energy efficiency programme.

9.5 It is currently forecast additional borrowing of circa £4.5m will be required in 2025/26 to finance the HRA business plan and proposed capital programmes with additional borrowing required going forward to achieve the HRA business plan objectives. This position will be kept under review during 2023/24 and only undertaken if required. Over the life of the business plan, additional borrowing of up to £26m will be needed to support the programme for maintenance and

existing debt repayment. The additional borrowing is required over the next 12 years, after which balances are forecast to become sufficient to cover the existing debt repayments. Where borrowing is undertaken, the financial impact on future years will be considered alongside the rest of the HRA business plan to ensure affordable.

10. Local Government Act 2003 – Financial Administration

10.1 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

10.2 **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.

10.3 The Council's Medium Term Financial Plan, together with information presented in the Budget reports and subsequent reports demonstrate the financial challenges to Waverley Borough Council and Landlord Service in the future.

10.4 In view of the level of awareness amongst Members and the action taken to produce the Council's budget in 2023/24, the S.151 Officer is satisfied with the robustness of the estimates presented.

10.5 **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 7 shows the schedule of HRA balances and reserves.

10.6 **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 2022/23 shows that the HRA is not staying within budget on capital and revenue overall due to inflationary increases. However, action has been taken to manage the budget where possible and working balances will be utilised to fund these increases to ensure a balanced position can be achieved by year end.

11. Conclusion

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

12. 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.

13. Implications of decision

13.1 Resource (Finance, procurement, staffing, IT)

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

13.2 Risk management

Risks inherent with the delivery of a sustainable Business Plan have been identified and will be closely monitored by officers throughout the year.

13.3 Legal

13.3.1 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.

13.3.2 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.

14. Climate emergency declaration

14.1 The New Build Programme contributes to the Council's environmental and sustainability objectives through working with consultants to develop climate positive design and developing carbon off-set opportunities in materials used in construction.

14.2 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.

- 14.3 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.
- 14.4 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.
- 14.5 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
- 14.6 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.
- 14.7 The development teamwork 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.
- 14.8 Sustainability and reducing carbon are central to the review of the Asset Management Strategy, Responsive Repairs contract and capital works programmes.
- 14.9 Meeting the climate change emergency in respect of the council's housing stock is both financially and resource intensive. Detailed work will be done alongside the stock condition survey to understand the works required and how best to deliver them within the HRA Business Plan.

15.Consultation and engagement

The Portfolio Holders and the Tenants Panel will be consulted on this paper. The Resources O&S Committee will scrutinise the draft HRA Business Plan and budget at their meeting on 23 January 2023.

16.Other options considered

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

17.Governance journey

Landlord Services Advisory Board and Resources Overview and Scrutiny
January 2023, Executive and Council February 2023.

Background Papers

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

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