

REPORT TITLE: HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN AND BUDGET OPTIONS

21 NOVEMBER 2023

REPORT OF CABINET MEMBER: CLLR CHRIS WESTWOOD – CABINET MEMBER FOR HOUSING

Contact Officer: Liz Keys Tel No: 01962 848226 Email Lkeys@Winchester.gov.uk

WARD(S): ALL

PURPOSE

Despite the unprecedented budget challenges and interest rate rises faced by the council's housing service this report offers budget options to achieve the council's policy objectives to go greener faster, address the cost-of-living crisis and maintain the commitment to deliver 1000 new homes.

Continuing inflationary building supply and construction pressures, volatile and increasing underlying Public Works Loan Board (PWLB) interest rates are increasing new homes build costs. To address this significant rise in building costs and maintain the commitment to delivering 1000 new homes, the business plan has been rebalanced with a new homes acquisition strategy to prioritise purchase of new homes from developers, where costs are currently significantly lower, and continue to develop schemes where the business case is proven to be viable.

In addition to high building costs, significantly increased energy costs are impacting many of the most vulnerable residents in our homes. To mitigate the additional energy costs for residents and to drive de-carbonisation of our council homes, an additional investment of £30m is proposed to be allocated into the Retrofit programme to meet regulatory decent homes energy standards.

The budget options contained in this report support the council's commitment to increase investment in customers' homes to go greener faster and to deliver the 1000 new homes programme by 2032/33.

To achieve these policy objectives and set a viable and sustainable HRA business plan, several budget options have been identified for consideration, development and consultation with customers. Subject to the development and consultation those

options will be considered by Cabinet when the Housing Revenue Account budget is considered in February 2024.

RECOMMENDATIONS:

1. Note the draft HRA Business 30-year Plan for 2023-24 to 2052-53 metrics shown in Appendix 1
2. To approve the budget options outlined within this report.
3. Note the proposed additional investment in the council housing stock of £30m over the next eight years to 2030-31 to retrofit properties on a fabric first basis to help improve their energy efficiency and reduce energy costs for tenants. This additional annual investment brings the total annual investment here to £5.625m a year and £45m in total.
4. Note the proposed strategic change in direction moving from a plan based upon direct delivery of new homes to one based upon a mixture of actively acquiring s106 affordable housing directly from developers alongside future development with grant funding and using Right to Buy resources.
5. Note the current financial viability assessment for new build and that at present all potential development sites based on current assumptions evaluated this year have not been assessed as being financially viable within the existing viability model (see para 12.3 -12.6).
6. Note the proposed move to 80% market rent to help improve the viability of new homes development and to mitigate the increasing cost of delivery.
7. Note that a revenue savings target of £400k over two years has been set to assist with bridging the forecast gap in financing future capital expenditure.
8. Approve the disposal in principle of Barnes house in 2024-25, and in addition two strips of land with one surplus HRA property per year over the next eight years to generate additional capital receipts to help fund the increased investment requirement over these years.
9. Approve the move to full cost recovery for private connections of the council's sewage treatment works and note that this will include transitional protection and be achieved within a five-year timeframe.

10. Note that based on the September 2023 CPI figure of 6.7% that the average formula rent increase for 2024-25 for all affordable and social housing will now be 7.7%, subject to any government intervention.
11. Approve the proposed move from RPI+0.5% to CPI+1% for existing council shared owners in the HRA as well as in all future shared ownership leases. Note that the impact of this in 2024-25 will be a reduction in rent rises this year from 9.4% to 7.7%.
12. To approve full cost recovery in tenant service charges in 2024-25 (see paragraph 14.6).
13. Note that officers are currently beginning a review of the current Housing management system with a view to evaluating whether it is still fit for purpose or needs to be replaced, as well as beginning work on the re-procurement of the repairs and maintenance contract. The Business plan provides for this to happen over the following two years at a provisional one-off cost of up to £2m.
14. Note that the draft HRA Business 30-year Plan is viable and sustainable and has the capacity to support the council's ambitious delivery of 1,000 new affordable homes over the next 10 years. The proposed plan provides sufficient funds over the life of the plan to still deliver over 1,500 new affordable homes in total.

IMPLICATIONS:

1. COUNCIL PLAN OUTCOME

- 1.1. Providing good quality housing and new affordable homes is a strategic priority for the council. Effective management of the resources available to the council enable it to take advantage of new opportunities and ensuring tenant satisfaction in relation to their home and community.
- 1.2. Tackling the Climate Emergency and Creating a Greener District
 - 1.2.1. Carbon reduction measures will be accelerated across the existing housing stock and included within the design and construction of new properties and included within the feasibility assessment when considering the purchase of properties. This includes the council's 10 year retrofit programme for existing properties where additional new funding of £30m has been allocated within this year's plan.
- 1.3. Homes for all
 - 1.3.1. Assist with the increase of affordable housing property stock across the Winchester district and meet the council's objective to provide a range of tenures to meet demand.
- 1.4. Vibrant Local Economy
 - 1.4.1. Deliver affordable accommodation which allows people to live and work in the district and contribute to the local economy.
- 1.5. Living Well
 - 1.5.1. The wellbeing of residents is considered within the design of new properties and new homes are designed to be both energy efficient and to meet tenants' needs. Any substitute properties are assessed according to these criteria.
- 1.6. Your Services, Your Voice
 - 1.6.1. Housing tenants are directly involved in decisions regarding service provision, both through the work of Tenants and Council Together (TACT), the council's tenant involvement group and through regular tenant and leaseholder digital surveys, capturing wider tenant views. The service continues to review options to provide an improved customer experience, increase opportunities for engagement, and to ensure satisfaction with services provided by the council.

2. FINANCIAL IMPLICATIONS

- 2.1. These are fully detailed in Section 11 of the report and the accompanying appendix.

3. LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1. Under Part VI of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.
- 3.2. The council is required to prepare proposals each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.
- 3.3. Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid an end-of-year deficit.

4. WORKFORCE IMPLICATIONS

- 4.1. Consultation is currently taking place with staff and Unions on a new structure for the service. It is proposed to delete a number of vacant posts, change reporting lines to give focus to service delivery and also allocate additional resources to support the increased retrofit programme.

5. PROPERTY AND ASSET IMPLICATIONS

- 5.1. To meet one of the key principles of the council plan, the HRA is required to provide sufficient financial resources to both maintain existing stock to decent homes standard and to enable new affordable housing to be obtained to help meet local demands.

6. CONSULTATION AND COMMUNICATION

- 6.1 To date two meetings have taken place with TACT to explain the challenges the HRA is facing. TACT members provided ideas of areas to review at the second meeting and they will need to be considered in the light of the financial challenges, policy options and potential rent increase. There is a meeting scheduled on the 29th November at which time it is hoped there will

be clarity on the Government's direction on rent setting. The intention at that meeting is to share with TACT the policy options to address the challenges so that ideas can be built into the forthcoming report to set rent and the HRA in February 2024.

7. ENVIRONMENTAL CONSIDERATIONS

- 7.1 This year's proposed 30 year business plan sees a significant increase in the provision of resources to fund the proposed fabric-first retrofit programme of works with increased funding of £30m over the next 8 years. Delivery of the planned investment could lead to a reduction of 1666.22tCO₂ from customers' homes by 2030.
- 7.1. The Business Plan also funds the provision of a further two dedicated retrofit officers responsible for the delivery of the retrofit programme to drive this increased programme.
- 7.2. The Housing Service considers environmental factors when preparing and developing major projects e.g., working closely with Planning and Landscape Officers when considering new build developments to meet the required codes for sustainable housing.

8. PUBLIC SECTOR EQUALITY DUTY

- 8.1. This document is part of the budget consultation process, and the public sector equality duty is considered alongside any relevant budget options. The housing service holds data in respect of its tenants' protected characteristics. Whilst there is no evidence to suggest the budget proposals and services within it would adversely affect those with protected characteristics, it is recognised that some tenant households will be impacted differently by the same budget objectives and associated services.
- 8.2. The 2023/24 budget's operational decisions being presented in this paper include investment in maintaining decent homes and increasing the supply of affordable housing designed to have a positive impact on customers. Other options designed to have a positive impact on customers include additional investment in energy efficiency that will benefit those tenants with high energy costs thus addressing the cost-of-living crisis and are fully adaptable to meet tenants long term mobility and health needs

9. DATA PROTECTION IMPACT ASSESSMENT

- 9.1. All projects set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

10. RISK MANAGEMENT

Risk	Mitigation	Opportunities
<p><i>Property</i></p> <p>That Council owned dwellings fail to meet decent home standards</p>	<p>An effective programme of future works and sound financial planning ensures that these standards are met and then maintained.</p>	<p>Self-Financing provides certainty around future resource allocations and facilitates better supply chain management</p>
<p><i>Community Support</i></p> <p>Lack of consultation will affect tenant satisfaction and cause objections to planning applications for new build developments.</p>	<p>Regular communication and consultation is maintained with tenants and leaseholders on a variety of housing issues.</p> <p>The Council consults with local residents and stakeholders on proposed new build schemes.</p>	<p>Positive consultation brings forward alternative options that may otherwise not have been considered.</p>
<p><i>Timescales</i></p> <p><i>Delays to new build</i> contracts may result in increased costs and lost revenue.</p>	<p>New build contracts contain clauses to allow the Council to recover damages if the project is delayed due to contractor actions.</p>	
<p><i>Project capacity</i></p> <p>The HRA can borrow funds in addition to utilising external receipts and reserves, but it must be able to service the loan interest arising.</p>	<p>Regular monitoring of budgets and business plans, together with the use of financial assessment tools enables the Council to manage resources effectively.</p>	<p>The Council monitor's government announcements on the use of RTB receipts and potential capital grant funding.</p>
<p><i>Deliverables</i></p> <p>Risk that the council cannot deliver the programme of new build and meet the objective of 1000 homes in 10 years because of the lack of sites, the cost of development or the cost of financing this development.</p>	<p>The new homes is monitored on a regular basis and if appropriate could be delayed or re-profiled in light of the availability of these resources</p>	<p>Review the deliverable shape of the programme and its profiled delivery considering available resources and risk appetite</p>

Risk	Mitigation	Opportunities
<i>Staffing resources (not always in Housing) reduce the ability to push forward new schemes at the required pace.</i>	Staffing resources have been reviewed to support the delivery of the new build programme.	Given the challenging nature of the delivery targets it may be necessary to review the resourcing requirements needed to successfully deliver this programme
<p data-bbox="193 591 595 801"><i>Financial / VFM</i></p> <p data-bbox="193 801 595 1368">Risks, mitigation, and opportunities are managed through regular project monitoring meetings.</p> <p data-bbox="193 1032 595 1368">Insufficient new build sites are identified to assign RTB 1-4-1 receipts financing to and RTB receipts are required to be repaid to Central Government with up to an estimated compounded 55% interest penalty based on current rates.</p>	<p data-bbox="595 591 997 1025">New build Schemes are financially evaluated and must pass financial hurdles and demonstrate VFM. Total Scheme Costs contain provision for contingency on build costs and on fees for new build developments that take account of potential residual development and sales risk.</p> <p data-bbox="595 1025 997 1368">RTB 1-4-1 are closely monitored so in-year targets for new builds are known.</p>	<p data-bbox="997 591 1401 1368">In addition, the HRA holds annual minimum levels of reserves based upon 5% of operating turnover and 10% new build costs.</p>
<p data-bbox="193 1368 595 1406"><i>Financial Assessment</i></p> <p data-bbox="193 1406 595 1742">Risk that the cost of developing new homes projects will fail to meet the financial hurdles required to be financially viable to develop/acquire within the HRA</p>	<p data-bbox="595 1368 997 1742">The measures identified within this paper will help to mitigate against the increased costs of new homes by increasing the income available to fund increased borrowing costs and reducing the overall cost of delivery.</p>	
<p data-bbox="193 1742 595 1780"><i>Interest rate volatility</i></p> <p data-bbox="193 1780 595 2040">The economic and fiscal environment for borrowing is both volatile and uncertain making external borrowing decisions difficult to take at present</p>	<p data-bbox="595 1742 997 2040">The HRA has cash reserves that allow it in the short term to effectively borrow from internal resources giving a period for interest rates to stabilise and reset and the fiscal environment to be more benign.</p>	<p data-bbox="997 1742 1401 2040">The use of internal borrowing can help to reduce the short-term cost of borrowing as well as delay the need to seek external finance and delivers better overall returns to the HRA</p>

Risk	Mitigation	Opportunities
<p><i>Future Social Rent Policy</i></p> <p>Uncertainty about long term rental income streams because of the end of the current agreement on rent setting in April 2025.</p>	<p>Rental income accounts for 93% of all the HRA annual income, and future potential uncertainty, government intervention or constraint has a significant impact on the future capacity of the HRA and deliverability of the plan</p>	<p>Sectorial lobbying of Government to seek future certainty will help to support better decision making</p>
<p><i>Legal</i></p> <p>The provision of social housing is a statutory requirement. Changing Government priorities place a greater emphasis on social housing which must be monitored and considered within planning of future new build projects.</p>	<p>Government statutory requirements and policy changes are being monitored to identify any new risks or opportunities that they may bring.</p>	<p>To create new housing developments within new guidelines and drawing on innovative thinking.</p>
<p><i>Reputation</i></p> <p>Failure to complete major housing projects due to lack of resources would have a direct impact on both customer satisfaction and the Council's reputation.</p>	<p>Business planning tools with regular updates are utilised to make sure resources are available to complete projects.</p>	
<p><i>Other</i></p> <p>– Environmental regulation such as that by Natural England on mitigating Phosphates</p>	<p>This delays the ability to bring forth schemes with planning permission and delays increase the cost and viability of schemes.</p>	

11. Economic Outlook and cost pressures:

- 11.1. The Budget for 2023-24 was set against a background of unprecedented inflationary pressures affecting key cost drivers to the HRA such as energy, construction labour, and building materials as well as the impact of a series of interest rate rises to address this by the Bank of England. Although annual inflation increases are now predicted to be on a downward trend within many of these sectors, the real terms increase in prices remains embedded at present levels, even if the rate of increase due to inflation is falling. This has contributed to this year's MTFS being even more difficult and challenging than last year's and has required several mitigating budget options to be

considered in order to continue to deliver the council's key housing objectives in this area.

- 11.2. The HRA Business planning process is done annually and all assumptions are revisited and undertaken a fresh every year. To set a viable and sustainable business plan for the next 30 years has been extremely challenging this year. The cost of building new homes (needed to replace those homes purchased privately by tenants using their Right To Buy and to provide financial sustainability in the long term) continues to increase faster than the general rate of inflation. There is also a legislative need to invest in the existing stock to bring it up to new energy efficient standards, requiring an additional £30m of investment requirement over the next eight years.

Cost of construction

- 11.3. The investment required for new homes has once again increased significantly, with anticipated rises in construction costs of a further 23% to £4,600 per square metre; making the cost of construction (excluding land) for an average 3-bedroom property now £427,800. The budgeted cost of construction over the last two years, following covid, Brexit and the invasion of the Ukraine, has increased by over 58% from £2,800 per square metre. At the same time the cost of borrowing that the council can access has more than doubled from 2.5% to 5.87%; and new affordable rents have increased only in line with inflation plus 1%.

Rent Increases

- 11.4. The council must set its rents in line with the Rent Standard and central Government's Regulator of Social Housing's rent setting guidelines. The current basis of rent setting is CPI+1% for 2024-25, there has been no announcement from the Government yet of what will happen in future years. The business plan assumes that the current level of CPI+1% will continue for a further 5 years (making the estimated rent increase for 2023/24 7.7%). In 2023-24, given the very high inflation rates, the rent increase at CPI+1% would have meant an increase of 11.1%, however the Government intervened and capped increases at 7% for existing tenants. This was only announced on 17 November in the Chancellor's Autumn Statement. Therefore, there remains a possibility that the rent increase will once again be capped, although the formula increase is much closer to the previously capped level and indications from DLUHC are that at present no capping is being considered.

Repairs and maintenance

- 11.5. Annually the council looks at the capital costs of maintaining the existing housing stock at decent homes standard and its investment here is based upon an asset management plan. This identifies the investment requirement profiled over the thirty-year plan based upon the lifecycle replacement costs of key components. To bring the housing stock up to the required energy efficiency standard of EPC C identified by 2030-31, there is now a need to invest an additional £30m on capital works. This brings the total investment

in retrofitting over the next eight years to £45m. In addition, the council has increased annual spend by £2m over the last two years on the revenue repairs budget reflecting inflation, increased service demand, the improved voids standard, and in resourcing the staffing capacity of the existing team to manage and deliver decent homes.

Interest on borrowing

- 11.6. Interest rates are a key cost driver in the HRA business plan and as at 31 March 2023 the HRA had £199.8m of Capital Financing Required (unfinanced prior capital spend) of which £161.7m is external debt (fixed at PWLB interest rates averaging 3.2%) and the balance of £38.1m is internally borrowed (offset against reserve balances and working capital). PWLB rates are not directly linked to the Bank of England base rate but are set at a margin over government gilt yields, which analysts believe are likely to fall slightly in the medium term but remain higher than the period of historically low rates following the 2008 financial crisis. The current cost of financing this external debt is £5.5m per annum.
- 11.7. This debt largely came about through self-financing and was originally taken out in 2012. A proportion of this existing external debt (£85m) will need to be refinanced over the next 15 years, with a need to refinance £35m of it within the next five years. The HRA, unlike the General Fund, has no requirement to set aside funding for debt repayment and the HRA business plan assumes all underlying debt is refinanced.
- 11.8. In addition, the proposed plan will see HRA funding the building of an additional 1,500 affordable homes largely through a mixture of Right to Buy (RTB) 1-4-1 capital receipts; shared ownership sales; other discretionary asset disposals; grants; and borrowing. This will require additional prudential borrowing of £103m to finance this delivery. In 2023/24 the budget assumed that interest rates for long term borrowing would be at 5% for a 3–4-year period and then return to a more modest 4%. At present the cost of long-term government borrowing remains elevated and stands at circa 5.6% for 50 year borrowing at the time of writing. In the decade before 2006/07 the PWLB long term interest rate peaked at 9.42% but averaged 5%. It is therefore prudent to assume that the cost of borrowing in the plan will be 5% for the duration of the planning period.

Management of the HRA

- 11.9. There is a need to modernise the provision of services to customers through the introduction of better digital access. A feasibility study has commenced to review whether the existing housing management system is still fit for purpose and to assess how well it will be able to facilitate the council's aspiration of improving digital services for customers. In addition, work on the re-procurement of the repairs and maintenance contract should begin now as the current contract expires in two years. The HRA business plan

has earmarked provisional revenue sums of up to £2m over the next two years to facilitate the replacement of the current system if this is required.

- 11.10. Against these considerable challenges of increasing investment requirements over the next eight years; increasing costs; and uncertain rent regulation; the council needs to review the options available to it to set a sustainable and viable 30-year business plan and a balanced budget in 2024-25.
12. Rising Costs of New Build Housing
 - 12.1. In delivering an ambitious programme of 1,000 new homes, the HRA business plan was previously operating with materially lower average build costs as well as having the advantage of borrowing at historically low interest rates under self-financing from the government. The cost of building new homes has increased significantly over the last two years whilst at the same time the cost of borrowing has more than doubled.
 - 12.2. Under the self-financing regime, the HRA is a purpose made vehicle for delivering new affordable homes and when both interest rates were low and stable and construction costs more affordable it was able to build, construct and acquire properties; financing this with rents at 70% of market rent or the Local Housing Allowance, whichever was the lower.
 - 12.3. The primary financial assessment in the evaluation of new homes is a Net Present Value (NPV) calculation of all future income and expenditure over a typical 35-year period discounted to current prices. This calculation uses the current cost of capital and a risk margin as the discount factor. In addition, the council's standard model includes the residual social value of the housing at year 35 on the basis that the asset has been well maintained and has a future use and value. There are other criteria such as gross income covering the cost of borrowing, but the NPV calculation is the key criteria. If it is positive then the scheme or development is worth undertaking as it adds value, if negative then it requires additional subsidy from within the HRA over and above external grant funding or available capital receipts.
 - 12.4. The impact of higher borrowing costs, coupled with volatile mortgage supply and costs on market demand for new housing has adversely impacted all developers. The council has subsequently had several potential private developments offered to it. However, to date, of those evaluated none have been financially viable within existing parameters. Obviously, if a developer struggles to make a development work at market price it's much more difficult to make it work at affordable rent even with RTB subsidy. This is especially the case when construction costs are so much higher and the cost of borrowing is approaching 6% This is compounded when the rental income achievable is restricted to below the maximum allowable of 80% of market rent.
 - 12.5. It is therefore proposed that, subject to the development or acquisition meeting the council's energy efficiency requirements, the rent levels for new

homes be set at 80% of market rent. This is the maximum level of affordable rent that can be charged and would include all relevant service charges. At present the rent criteria is 70% of market rent or LHA, whichever is lower. LHA rates are based on the lower 30% quartile of private market rents being paid by tenants in a Broad Rental Market Area (BRMA), with the LHA rate being fixed now at the 2020-21 price base for the last 3 years.

- 12.6. As an example, based on the rent for a three bedroom property at Whiteley, where 70% of market rent would be £161.54 a week and 80% rent would be £184.62, there would be additional rent to pay of £23.08 per week based on the proposed policy change. However, the properties achieve an EPC B rating which will reduce average running costs by around 75% so for a three-bedroom property with medium energy costs that would equate to a reduction of around £29 a week (an overall net saving of £6.80 a week compared to a less energy efficient home). Therefore, although there is additional rent to pay if set at 80% of market rent the increase is more than offset by reduced running costs.
- 12.7. To also help mitigate the rising costs of development for the council identified above, it is proposed that a change in the focus of the councils' development strategy is required that would help reduce the cost of new build to the HRA. This would see a greater emphasis upon acquiring s106 affordable housing, which officers believe can be acquired below market value. In addition, the plan assumes that WCC will be successful in attaining Homes England funding for 70 new homes at an average grant rate of £135k where the council undertakes development itself.
- 12.8. There will still be a need to identify and develop or to acquire housing at market prices to successfully apply the retained RTB 1-4-1 receipts that will be generated in the future. There are restrictions on how RTB 1-4-1 receipts can be applied when combined with certain other funding sources such as s106 contributions, and they cannot be applied in conjunction with Homes England grants, or non-scheduled receipts. There is also a requirement to repay any unapplied RTB capital receipts not used within a five-year period with compound interest of 4% above the Bank of England Base rate i.e., currently 9.25% (compounding to a total of 55% interest penalty after 5 years). The council therefore needs to actively manage this risk, and if it is apparent that it cannot spend the receipts it needs to notify DLUHC and repay them in advance to minimise the interest payable.
- 12.9. At present the council's delivery funded by RTB 1-4-1 receipts is ahead of the need to spend and if it delivers the current named schemes, it will have three years grace until 2027/28 before it needs to start spending on any new, as yet unidentified, schemes.
- 12.10. Subject to these proposed changes, the HRA business plan has capacity to fund delivery of 1,000 homes by 2032/33 including the 306 homes that are programmed to be delivered by the end of this financial year. The HRA business plan is refreshed each year and subject to the prevailing economic

circumstances, assumptions and performance the capacity to deliver could increase.

13. Creating Financial Capacity to fund future borrowing.

Revenue savings

- 13.1. As the key constraint is the HRA's ability to finance borrowing in the first eight years over which increased investment is required, several further mitigations have been identified to help increase financial headroom in this period.
- 13.2. A annual savings target of £318k has been set by officers for 2024/25 and a further £100k for 2025/26 and some savings are currently being explored through a minor reorganisation within the housing team. Further budgets totalling £112k annually have been identified to be saved through routine budget housekeeping. Further revenue savings could increase capacity in the HRA. An illustration of the amount of new borrowing that this could support annually depending on interest rates is shown below: -

Annual saving	interest rate	Annual borrowing financed
£400,000		
	4%	£10,000,000
	5%	£8,000,000
	6%	£6,666,667
	7%	£5,714,286

Asset disposals

- 13.3. Barnes House is vacant and has been used previously to provide temporary accommodation in the HRA. Following assessment of costs to refurbish and convert to achieve required standards it has been established that there is not a viable scheme to take forward. As a result, the property is now surplus to requirement and has an estimated sale price of £800k.
- 13.4. The business plan also assumes two further strips of development land per year for the next eight years will be disposed. These sites, that are considered too small and uneconomic to develop within the HRA, have already been identified. As well as providing valuable capital receipts to support the HRA it will enable small development to come forward.
- 13.5. Lastly, the business plan assumes that the HRA will identify and dispose of one further surplus social housing asset every year for the next eight years. These assets will be identified by looking at their long-term fit in terms of demand/cost to maintain and suitability to retro fit to required standards. This is estimated that it will create additional capital receipts of £500k per year.

Sewage treatment works

- 13.6. The HRA is responsible for the operation of a number of small sewage treatment works, septic tanks, and cesspools, which provide private sewage treatment connections for 394 council tenants and 367 private homes. The Sewage Treatment Works encompass 36 small sewage treatment works (including septic tanks), 19 pumping stations (9 are isolated and 10 within curtilage of treatment works) and 21 cesspools. The sewage treatment works range in size from small works serving 4 properties to larger works serving 85 properties. The septic tanks and cesspools serve between 1 and 8 properties.
- 13.7. There is currently an under-recovery by the HRA of the annual cost of operating these treatment plants. Approximately £268k of the under-recovered cost relates to the providing the services to private residents, which works out at an implicit subsidy per private connection of an average of £457 per year.
- 13.8. The council should be seeking to fully-recover the total cost of providing sewage treatment services to private residents, so that these services are not subsidised by council tenants. Subject to further consultation, the terms of individual leases and a review of costs, it is proposed that WCC move to full cost recovery for these services to private residents over a transitional five-year period, this may mean annual increases for some of up to 22%.
14. Rent increases and charges in 2024-25 and beyond.
- 14.1. The current rent setting regime is based on annual rent increases of CPI+1% and this applies to 2024-25. The Government has yet to launch the call for evidence that was announced in its response to last year's consultation on rent capping, so there remains uncertainty about future social rent policy from 2025. However, the Government's response to the consultation in November 2022 strongly suggested that capping was a temporary intervention in response to an exceptional cost of living crisis. The Government also restated its continued support for the principle that social housing rents should be index-linked over the long term to support investment in both new and existing social homes. Restating its commitment to increasing the supply of social housing and improving the quality of the homes that social housing residents live in. The response also floated the suggestion that registered providers might be allowed in future years to catch up on the income gap created by the 2023/24 rent capping.
- 14.2. The business plan assumes that the current rent policy will continue for a further five years.
- 14.3. A 7.7% rent increase would mean the average weekly social rent for existing tenants will be £123.39 a week, an increase of £8.82 per week. The average weekly affordable rent for existing tenants will be £199.45 a week, an increase by £14.26 a week. The impact of the increases is shown in table 1 over.

Table 1- indicative weekly rents in 2024-25 compared to 2023-24 for existing tenants.

Social Rents

size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avg Wkly Rent 2023-24	84.05	99.92	114.94	130.22	140.08	161.98	159.21	114.57
Avg Wkly Rent 2024-25	90.52	107.61	123.79	140.25	150.87	174.45	171.47	123.39
increase per week @ 7.7%	6.47	7.69	8.85	10.03	10.79	12.47	12.26	8.82

Affordable Rents

size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avg Wkly Rent 2023-24		156.36	185.08	217.37	239.58	234.23	230.19	185.19
Avg Wkly Rent 2024-25		168.4	199.33	234.11	258.03	252.27	247.91	199.45
increase per week @ 7.7%		12.04	14.25	16.74	18.45	18.04	17.72	14.26

note :- extract from Orchard social Rents as at September 2023

note :- Affordable Rents are shown gross and include all applicable service charges

Social rents exclude service charges

- 14.4. The average HRA social rent for new tenants from April 2024 will be different and this reflects the fact that new tenants pay the formulae rent and that this wasn't capped in 2023-24. Indicative average weekly rents for new social tenants are shown below in table 2. It is proposed that the rents for new affordable rent tenants will be let provisionally at 80% of market rent if the property meets the required minimum energy efficiency requirements.

Table 2 – Average Weekly rents for new social lets

size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avg Wkly Formulae Rent 2023-24	89.93	103.97	120.67	135.51	147.79	169.35	165.13	119.63
Avg Wkly Formulae Rent 2024-25	96.85	111.98	129.96	145.94	159.17	182.39	177.85	128.84
increase per week @ 7.7%	6.92	8.01	9.29	10.43	11.38	13.04	12.72	9.21

Service charges

- 14.5. In 2023/24, alongside the capped rent increase, the council approved a one-off discretionary limit on tenant service charge increases of 7%. Considering the budget pressures that the HRA investment programme faces and to align it with the general fund and the outcome of ongoing savings programmes, it is proposed to revert to full cost recovery from 2024-25, where this is possible.

Shared ownership rents

- 14.6. The HRA business plan assumes that 30% of all future new homes development will be delivered as shared ownership. The Government have

now prescribed that any new shared ownership development that is either s106 or Homes England grant funded should have leases that base annual rent reviews on CPI+1% (where previously these were upward-only based on RPI+0.5%). The proposed changes will have a floor of 0% if the CPI is minus 1% or lower.

- 14.7. Currently the council has around 68 leases for shared ownership that specify an upward increase of RPI+0.5%. It would be administratively easier and fairer to move all existing HRA shared ownership leases to this new CPI basis of rent increase and floor. The change to the lower CPI+1% rate would cost the HRA £6,500 in lost income in 2024/25. There are additional issues on how current shared owners' rents could be capped without the need and cost of changing each individual lease that are being explored.
- 14.8. There are in addition 10 Partnered Home Purchase (PHP) leases in the general fund (open market shared ownership properties) and it is not at present proposed that these should be changed as well, but if they were the lost rent cost to the general fund would be £700 in 2024/25.

15. OTHER OPTIONS CONSIDERED AND REJECTED

The council could consider investing less in customers' homes than is required to achieve the regulatory requirement of EPC C by 2030. This is not recommended as it would breach the regulatory requirements and in addition would not support the council's policy objective of being greener faster.

The council could also seek increased revenue savings than those identified in this report so as to provide investment capacity in the HRA. At this time the level of revenue savings identified are achievable and will not lead to a reduction in the quality of service delivered. Investment in improving the digital access to services may generate efficiencies in the future that can be realised without detriment to services. Therefore, increased revenue savings are not recommended at this time.

16. BACKGROUND DOCUMENTS: -

Previous Committee Reports: -

CAB 3387 HRA Budget – February 2023

CAB3365 HRA Business Plan and Budget Options – November 2022

CAB 3334 HRA Budget – February 2022

CAB3264 – HRA Asset Management Plan - 8 Dec 2021

CAB3325- HRA Budget Options - 23 Nov 2021

Appendix 1 – KEY HRA Business Plan Metrics

	debt	Net Income	Capital charges	debt to Turnover ratio	Capex	Working balance
2023.24	210,722	33,048	7,077	0.21	42,317	14,879
2024.25	210,722	36,432	8,186	0.22	31,910	14,310
2025.26	210,722	37,875	8,072	0.21	41,973	14,352
2026.27	218,381	39,733	8,369	0.21	42,983	14,865
2027.28	249,265	41,616	9,533	0.23	56,580	15,120
2028.29	279,808	43,575	11,258	0.26	56,479	14,713
2029.30	302,342	46,059	12,587	0.27	46,314	14,433
2030.31	325,192	48,726	13,725	0.28	43,287	14,876
2031.32	332,554	49,435	14,657	0.30	27,785	14,283
2032.33	344,820	50,884	15,398	0.30	31,009	13,666
2033.34	349,780	52,484	15,829	0.30	23,453	13,432
2034.35	353,128	53,974	16,042	0.30	22,115	13,667
2035.36	355,725	56,199	16,426	0.29	21,575	14,997
2036.37	359,603	56,356	16,591	0.29	23,062	15,570
2037.38	363,553	57,559	16,940	0.29	23,341	16,225
2038.39	364,976	58,789	17,074	0.29	21,025	17,184
2039.40	372,838	60,047	17,307	0.29	27,678	18,358
2040.41	375,418	61,333	17,568	0.29	22,613	19,725
2041.42	382,479	63,813	17,812	0.28	27,313	22,481
2042.43	391,195	64,025	18,354	0.29	29,191	24,037
2043.44	399,176	65,474	18,772	0.29	28,693	25,707
2044.45	409,304	66,987	19,225	0.29	31,078	27,495
2045.46	418,681	68,564	19,713	0.29	30,577	29,394
2046.47	430,222	70,185	20,239	0.29	32,994	31,380
2047.48	446,815	73,183	20,913	0.29	33,301	34,662
2048.49	455,555	73,522	21,368	0.29	30,730	36,771
2049.50	469,199	75,208	21,693	0.29	35,930	39,161
2050.51	481,618	76,929	22,355	0.29	35,008	41,500
2051.52	494,021	78,691	22,979	0.29	35,298	43,834
2052.53	508,057	81,993	23,787	0.29	37,244	47,493